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Politics this week

Sep 13th 2001
From The Economist print edition

Attack on America

America suffered the worst terrorist attack ever. Suicide hijackers crashed two fuel-laden passenger jets into the towers of the World Trade Centre in New York, both of which caught fire and collapsed, killing office workers and rescue workers alike. The entire southern end of Manhattan was evacuated.

See article: The new enemy

Another hijacked aircraft was flown into the **Pentagon** in Washington, DC, and a fourth plane crashed near Pittsburgh. The total death toll was estimated to run into thousands.

See article: A scarred capital

Airports, borders and stockmarkets in America were closed, and flights to, from and within America were grounded. Politicians around the world condemned the attacks and promised help in finding the terrorists. President George Bush promised to hunt down the perpetrators of what he called “an act of war” and put America’s armed forces on high alert.

See article: Old friends, best friends

No terrorist groups claimed responsibility for the attacks but suspicion immediately fell on **Osama bin Laden**, a Saudi dissident and already the most wanted man in America, at present thought to be in Afghanistan.

See article: Who did it?

Clampdown

Israeli tanks destroyed the security headquarters in the Palestinian-controlled city of Jenin. **Israel** claimed that the city was a “terrorist nest” and launch-pad for several recent attacks by Palestinian suicide bombers.

American and British aircraft attacked three surface-to-air missile sites in the southern “no-fly” zone of **Iraq**. The attack was part of a plan to disable Saddam Hussein’s air defences.

Syria arrested five leading opposition members and human-rights activists as part of a month-long clampdown on dissidents. The arrests followed the detention of two opposition members of parliament and the leader of a banned faction of the Communist Party.

See article: Autumn in Damascus

Suspected Islamist rebels killed 11 civilians and wounded nine at a funeral in **Algeria’s** western province of Arzew. Nine people died in a recent similar attack in the resort area of Zeralda.

Clashes continued between Christians and Muslims in the city of Jos in central **Nigeria**. Some 500 people have been killed in a week-long bout of violence.

See article: The roots of violence

At Commonwealth talks in Nigeria, Robert Mugabe's government agreed to carry out land reform fairly and legally in **Zimbabwe** in return for a pledge by Britain to find money to pay for the programme, but violent occupations continued. At a special southern African summit in Harare, governments of neighbouring countries extracted similar promises and blamed Zimbabwe for spreading disorder in the region.

See article: The pressure builds

Ex-Marxists win

Fretilin, formerly a Marxist party, won 55 of the 88 seats in **East Timor's** constituent assembly and is expected to form the country's first government when it becomes independent next year.

See article: After the vote, the constitution

A government composed entirely of ethnic Fijians was formed in **Fiji** after a general election. Fijians of Indian descent complained that they had been unlawfully excluded.

See article: Still divided

Australia's Federal Court ruled that its government had acted illegally in refusing 434 refugees permission to apply for asylum in the country and that they must be allowed to land. They had been rescued by a Norwegian ship and brought to Australian territorial water. The government intends to appeal.

Thousands of **Philippine** workers held a rally in front of the presidential palace in Manila, demanding a 50% increase in the minimum wage, at present the equivalent of $4.50 a day.

North Korea barred Japanese officials from entering the country to monitor the use of food aid, complaining that Japan was developing a missile that could be used against it.

Asia's first case of **mad-cow disease** was reported on a farm in Chiba, near Tokyo.

NATO may stay

In **Macedonia**, NATO said its troops had collected half of the arms that ethnic-Albanian rebels are supposed to hand in by September 26th. Macedonia's parliament voted for reforms to raise the status of the Albanian language and bring more of the Albanian minority into the police. But many of the Slavic majority, top politicians included, sounded keen to bash the Albanians once NATO's force had left. EU foreign ministers proposed a new, smaller but long-term NATO force to keep the peace.

See article: No outside police? No peace

Belarus's president, Alexander Lukashenka, was re-elected with 76% of the vote. He rigged it, claimed the country's opposition.

See article: The nostalgic opposition

Norway's Labour Party, in power for most of the past 70 years, won a general election with a much-reduced vote. Parties of the right may form a coalition government.

See article: Labour wins but loses

Britain and France argued over the rush of **asylum-seekers** trying to sneak into Britain through the Channel Tunnel. Eurotunnel, a train operator, failed in its bid to have a French court order the closure of a Red Cross centre that houses them near the tunnel's French entrance.

In **France**, Jean-Pierre Chevènement, a left-winger many times a minister, held his first campaign meeting for next year's presidential election, claiming to be above party and with repeated references to, yes, Charles de Gaulle.

Democracy guaranteed?

At a meeting in Peru attended by representatives of 34 countries, the Organisation of American States adopted an **Inter-American democratic charter** designed to deter not just coups but the subversion of constitutional rule by elected leaders.

See article: No coups, please

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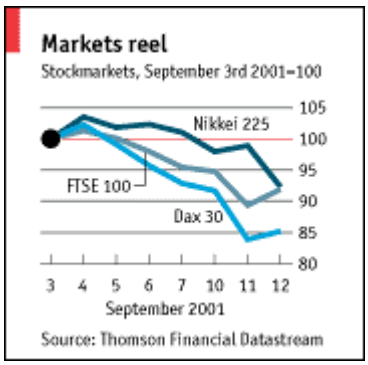
Business this week

Sep 13th 2001
From The Economist print edition

As America's exchanges stayed closed in the wake of the terrorist action, **markets** in the rest of the world bore the brunt. Investors switched from shares to bonds, gold and other commodities as stock exchanges suffered some of their biggest one-day drops ever. Bond trading resumed in New York on Thursday.



See article: Rudderless

America's Federal Reserve injected $38.25 billion of cash into the **banking system**, about ten times the daily average; the Bank of Japan and the European Central Bank pumped in $80 billion.

See article: When the economy held its breath

The **IMF** and **World Bank** seem likely to cancel their annual meetings, due to take place in September, on the advice of the Washington, DC, authorities.

Japan's economy contracted by 0.8% in the second quarter, compared with the previous quarter; at an annual rate, its GDP shrank by 3.2%. The worsening situation led to a threat from Standard & Poor's to downgrade Japan's debt rating because of worries that the country's leaders would prove unable to reform the ailing economy.

Mobile profits

Nokia, the world's biggest mobile-phone maker, bucked the industry trend by announcing that it would probably make its targeted profit in the third quarter despite falling revenues. Although sales of networking equipment were depressed, profits from handsets, in which Nokia has a 35% world-market share, remained buoyant.

Deutsche Telekom, Germany's telecoms giant, saw its shares dip below the 1996 offer price for the first time. The nerves of Germany's small shareholders, many of whom were lured into the market for the first time by Deutsche Telekom's initial public offering, are sorely stretched.

KPN, a Dutch telecoms company, announced that its next chief executive would be Ad Scheepbouwer. The appointment by the former state-owned concern (the Dutch government still owns 35%) reassured banks, which promptly arranged a syndicated loan worth *euro*2.5 billion ($2.3 billion). KPN's debts are already nearly *euro*23 billion.

In fashion

A long-running battle for **Gucci** between two of France's best known businessmen, Bernard Arnault and François Pinault, came to an end. Pinault-Printemps-Redoute, a French retailing empire, will take a controlling stake in the Italian fashion house by purchasing part of a stake belonging to LVMH, a luxury-goods company. It will later buy LVMH's remaining 12% and promises to make a full offer to other minority shareholders in 2004.

Moulinex-Brandt, a French-Italian electrical goods group, went into bankruptcy protection for six months while a buyer is sought for the company, which has spent many years in crisis. Thousands of jobs

may go.

See article: Kitchen sinking

Allied Domecq, a British drinks company, offered *euro*279m ($253m) for **Bodegas & Bebidas**, Spain's biggest wine maker, to add to its existing Spanish wineries. Shareholders may yet be tempted by a possible counter-offer from Metalgest, a Portuguese concern that owns 12% of Bodegas & Bebidas.

Appealing

General Electrics and **Honeywell** said they would appeal against the European Commission's recent rejection of their planned merger. Appeals to the European Court of Justice can take some years, however.

The world's three biggest **cigarette companies**, along with a number of lesser players, are soon to agree on a voluntary pact governing the advertisement and marketing of their products. However, the standards, which will end television and radio advertising around the world, are less stringent than restrictions already in place in America and Europe.

Scottish Power suffered a sharp drop in its share price after it revealed that profits from its American operations would decline. The company was hit when PacifiCorp, an Oregon firm that it purchased last year, faced an unexpected fall in retail prices after promised power shortages failed to materialise.

Corus, an Anglo-Dutch steel maker, announced that pre-tax losses for the first half of the year would be £230m ($331m). Worldwide overcapacity and a slowing economy are to blame. However, the figures are an improvement on last year's losses of £1.1 billion.

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America attacked

The day the world changed

Sep 13th 2001
From The Economist print edition

After this unspeakable crime, will anything ever be the same?

SIX decades ago, a generation of startled Americans awoke to discover that their country was under attack. Pearl Harbour changed America, and therefore the world. Now the children and grandchildren of the Americans who went to war in 1941 have suffered their own day of infamy, one that is no less memorable. The appalling atrocities of September 11th—acts that must be seen as a declaration of war not just on America but on all civilised people—were crueller in conception and even more shocking than what happened in Hawaii. Thousands of innocents lie dead in the wreckage of the World Trade Centre; hundreds more seem likely to have perished at the Pentagon and in a crashed airliner in Pennsylvania. This week has changed America, and with it the world, once again.

In the immediate aftermath, the United States showed signs of what makes it great. In so many ways, and for understandable reasons, it had been unprepared to face such evil. Modern Americans have never learned to live with terrorism or with enemy action of any kind within their borders. They have not needed to. Neither the attack of 1993 on the World Trade Centre nor the bombing in Oklahoma in 1995 had changed that. Even the attack on Pearl Harbour was remote from the country's heartland. At home, Americans felt safe, in a way they never will again: it made this week's enormity all the more terrible. Despite everything, the country rallied. Across the United States, people have queued to give blood, to offer help. Airports and stockmarkets have been closed, but there is an urgent desire to return to normality, to carry on and not be cowed. In the country at large there is nothing of hysteria or panic. The mood is grief, purpose, unity, and anger under control. That is admirable.

In his first messages to the country George Bush spoke well, balancing reassurance and resolve. It did seem a mistake, perhaps a sign of the country's innocence in these affairs, that Mr Bush should be hurried to safety in Nebraska in the first instance, rather than to the White House or to the ruins in Manhattan or Washington. At such times the president's security ought not to be the overriding priority: exercising leadership, and being seen to do so, must come first. But if it is fair to call that a momentary mis-step, it was soon put right. The commander-in-chief was quickly seen to take command, and then acquitted himself with credit.

From horror to action

The testing, however, has barely begun. The immediate task of clearing the debris, recovering the dead and counting the full human cost will be daunting in the extreme. (In some ways, the first telephoto images, awesome though they were as spectacle, disguise the human toll of pain and distress.) And as that awful work proceeds, in circumstances hardly conducive to rational analysis, an adequate response to the atrocities must be framed. That is the greatest challenge of all. It must not be a task that the United States undertakes alone.

Even the simplest and most obvious prescriptions, to do with improving security at domestic airports, pose a dilemma. For years, visiting Europeans have been either alarmed or delighted, according to temperament, to discover that boarding an airliner in America is as easy

as boarding a train back home: bags checked at the kerb, tickets issued at the flash of a driving licence, minimal or no inspection of cabin baggage. This, it now sadly emerges, was a fool's paradise. Security at America's airports will have to be brought up to the same stifling standards as those endured in the rest of the developed world. That will entail much longer queues, much more bureaucracy and even more delays in an industry already detested for all these things.

Still, that is largely a matter of mere nuisance. Much more worrying is that a new balance between liberty and security may have to be struck more broadly, and not just in the United States. This issue, at any rate, will have to be faced. The attacks called for meticulous planning and co-operation among an extended network of conspirators, yet apparently took the authorities entirely by surprise. This was an extraordinary failure of intelligence-gathering. Critics have long argued that America and its allies have come to rely too much on high-technology snooping for counter-terrorism purposes and not enough on old-fashioned human spying. To meet the threat of an enemy without compunction, who sets the value of human life at naught, governments will need to beef up both. But there is a heavy cost. Spying infringes everyone's freedom, everyone's privacy, not just that of the enemy. Just where this balance will be struck, or should be struck in a liberal democracy, remains unclear. In the face of the implacable evil witnessed this week, the answer may have changed.

Next comes the question of America's overall defence posture, and that of its allies. Mr Bush has given pre-eminence in foreign policy to missile defence. As this paper has said before, it is hard to see why America should be prevented from building a shield to defend itself and its friends against incoming missiles from rogue states if it wants to do so; no country should be deprived of the right to defend itself. Yet any idea that such a shield, if it can be constructed at all, would be enough by itself to guarantee American security, was far-fetched all along. Now it lies with the rubble. Among the enemies of America and the West are men who do not fire missiles, but who hijack aircraft full of fuel and fly them into crowded buildings. The missile-shield programme, whatever its merits, must not militate against efforts to improve security against other kinds of threat.

Stand together

Counter-terrorism, depending as it does on the pooling of information, also requires international co-operation, something which Mr Bush has, at a minimum, failed to emphasise in his approach to foreign policy. The United States has had good reason in the past to be sceptical about the value of some of its alliances and commitments. And it is right for Mr Bush to put American interests first—all governments should put their own national interests first. But mutually compatible national interests are often best served through co-operation. Without doubt, when it comes to international terrorism, a new spirit of common resolve is indispensable. America's allies in NATO have proclaimed their willingness to stand up and be counted by invoking for the first time in the history of the organisation its Article 5 on mutual defence, which binds the signatories to regard an attack on one member as an attack on all. That is what it was: an attack on all. The symbolism of the gesture is everything one could wish. Now America must demand, and receive, the tangible support it implies.

Lastly comes the question which is uppermost in most minds, the most treacherous question of all—that of retaliation. The problem is not merely that the American authorities still seem unsure who is to blame. Suspicion points to Osama bin Laden, but there are other possibilities, including, just conceivably, home-grown lunatics. Soon it will no doubt be possible to say with confidence who the perpetrators were. But if it does turn out to be bin Laden, that by itself will not give the answer to the question: "How much force in reply?"

America and the West—again, in their own interests—must recognise and reflect upon the hostility they face in parts of the world. Scenes of Palestinians and other Muslims celebrating this week's horrors may seem an unendurable provocation, but America must take care in the coming days that it does not create more would-be martyrs than, through military action, it can destroy. The strategy—easier said than done, to put it mildly—must be to make friends with opponents who are capable of reason, while moving firmly against those who are both incapable of it and willing to resort to, or assist in, acts such as those seen this week. The response of America and its allies should not be timid, but it should be measured.

Is there a danger that America will choose, in the end, to retreat behind a different kind of shield—not one that guards against missiles, but one that aims to shut out the world? The United States, no less than other great powers, has had an isolationist streak (George Washington said it was his true policy “to steer clear of permanent alliances with any portion of the foreign world”). Our belief, and our fervent hope, is that the answer is No. Thanks to America, and only thanks to America, the world has enjoyed these past decades an age of hitherto unimagined freedom and opportunity. Those who would deflect it from its path must not, and surely will not, succeed.

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Letters

Sep 13th 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Funds for refugees

SIR – Your proposal that the United Nations High Commissioner for Refugees seeks more private money as a solution to its financial crunch is unwise ("Flight into penury", August 11th). First, this strategy will not bring immediate relief as it takes time and sustained effort to cultivate private donors, as Unicef well knows. More important, it lets governments off the hook. Governments, particularly those who have signed the 1951 Refugee Convention and 1967 protocol, have a moral, if not a legal, obligation to protect and assist refugees. By relaxing the pressure through seeking private funding, the UNHCR would undermine this international system. Better that it enlists NGOs to put pressure on stingy governments to attain the target of $1 per citizen proposed by the high commissioner, Ruud Lubbers. Governments could choose to give the increase in their contributions to NGOs, but this should be done within the context of the UNHCR's programmes and the agency's budget reduced accordingly.

Anthony Kozlowski
President, American Refugee Committee
Minneapolis

Uncommercial television

SIR – Even the most elitist and highbrow programming on commercial television has to be paid for and some of the adverts that pay the wages make even the worst of pay-television seem attractive by comparison ("Outgrowing Auntie", August 18th). This is reason enough not to privatise the BBC.

In fact, the BBC should abandon its futile ratings war with ITV and concentrate on areas that the market finds unattractive and in which it still excels. As the case for mixed-genre, something-for-everybody channels weakens, so the case for a body to fill the gaps in the market gets ever stronger.

A BBC thus reformed and still state-financed (not necessarily by a licence fee) should not attempt badly what its commercial counterparts do well. Instead, by focusing on intellectually rigorous programming of insufficient mass appeal to be commercially viable, the BBC will continue to serve the interests of upmarket viewers and fulfil its public-service remit. The BBC should do less, and do it well.

Stephen Hopkins
Sudbury, Suffolk

SIR – You skirt the issue of the impact of a BBC funded by advertising on the other commercial free-to-air broadcasters and their public-service commitments. Television advertising revenues increased by 7.5% in 2000 compared with an increase in overall British advertising spending of 10.3%. The mounting concerns of advertisers over the tendency of audiences to surf past commercials and their stated desire to exploit other media mean that a privatised BBC would compete with commercial rivals for revenues insufficient to support their needs. Broadcasters may then be unable to fund commitments to quality and diversity, and be forced to increase their output of low-budget, advertiser-friendly programming, resulting in a diminished range of free-to-air content.

Windsor Holden
Chichester, West Sussex

SIR – The £2.4 billion licence fee causes massive distortions in the market for television airtime, removing as much as 40% of the supply of viewing from the commercial sector. Taking away this state subsidy would allow the advertising market to operate efficiently and reduce marketing costs.

Andy Sloan
Haslemere, Surrey

The real Atlanta

SIR – Your representation of Atlanta is inaccurate and grossly misleading ("Race is a subtler business now", August 4th). First, since Mayor Bill Campbell took office in 1994, crime has dropped significantly. According to recent FBI statistics, robberies and homicides in Atlanta in 1999 were at the lowest level for 16 years, and rapes and burglaries the lowest level in three decades.

Meanwhile, as part of an aggressive recruitment campaign, the city has hired nearly 100 police officers in the past year. Second, rather than being "possibly bankrupt", Atlanta's city government recently received a stable credit rating from Standard & Poor's. In eight years, taxes have been reduced by a full 60% and the privatisation of our city's water system saved more than $20m a year.

However, you do get one thing right —that "Mayor Campbell can point to eight years of steady growth." Under his leadership building permits worth $6.3 billion have been issued and 10,000 housing units have been added. Once losing people at an alarming rate, Atlanta has gained population for the first time since 1969 and nearly 50% of new residents own their own home.

Glenda Blum Minkin
Director, Mayor's office of marketing and communications
Atlanta

Naomi Klein replies

SIR – In your happy little leader ("The case for brands", September 8th) you quote a passage from my book, "No Logo", referring to ours as "a fascist state where we all salute the logo and have little opportunity for criticism because our newspapers, television stations, Internet servers, streets and retail spaces are all controlled by multinational corporate interests." By taking these words out of context you have intentionally distorted my meaning to suit your own weak argument.

As I pointed out to your reporter, the next sentences in the book directly refute this vision of brand totalitarianism. The passage goes on to say that: "there is good reason for alarm. But a word of caution: we may be able to see a not-so-brave new world on the horizon, but that doesn't mean we are already living in Huxley's nightmare...Instead of an airtight formula, [corporate censorship] is a steady trend, clearly intensified by synergy and the mounting stakes of brand-name protection, but riddled with exception...the shift that is taking place is at once less totalitarian and more dangerous."

When asked whether ours is a corporate fascist state, I replied that I am too optimistic to take such a view: if human beings really are compliant brand drones, why are they taking to the streets in the hundreds of thousands from Seattle to Genoa? You, on the other hand, appear to believe that political activism is unnecessary because apparently we can rid the world of corporate abuses simply by shopping for better brands. Sorry, but I'm afraid I'm not quite that optimistic. I did not expect you to provide a nuanced or even accurate portrayal of the political ideas in "No Logo"—or, for that matter, of the goals of the global movements against corporate-driven globalisation. But I hope you will correct this one glaring distortion.

Naomi Klein
Toronto

The result stands

SIR – The hoary old chestnut about Richard J. Daley stealing the 1960 presidential election for John Kennedy is a myth (Lexington, August 4th). Republicans stole at least as many votes elsewhere in Illinois as Daley is alleged to have pinched in Chicago. And even if Kennedy had lost Illinois, he would still have won the election.

Anthony Lewis
Boston

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The new enemy

Sep 13th 2001 | WASHINGTON, DC
From The Economist print edition

The assault on the United States will forever change the way America looks at itself and at the world.

Reuters

SEPTEMBER 11th 2001 will be a date that America never forgets. Early on Tuesday morning terrorists simultaneously commandeered four passenger aircraft flying from Newark, Boston and Washington, DC. On the evidence of cellphone calls from inside the hijacked airliners, groups of between three and six terrorists herded passengers and crew into the back of each craft, threatening them with knives and cardboard-cutters.

Two of the planes flew straight into the twin towers of the World Trade Centre, felling both structures an hour later while thousands of people were presumably still trapped inside. A third ploughed into the Pentagon. The fourth crashed into a field in Pennsylvania, apparently after the passengers decided to overpower the hijackers when they heard, again over cellphones, of what had happened in New York. The aircraft had been aimed, it seems, at the heart of Washington.

For Americans, these terrible events are epoch-making, changing the landscape of geopolitics as indelibly as they have defaced the skyline of Manhattan. Current debates about budget deficits and the Internet boom now seem frivolous. The country's sense of invulnerability, built on its superpower status, has been violated. America has learned that it is not merely vulnerable to terrorism, but more vulnerable than others. It is the most open and technologically dependent country in the world, and its power attracts the hatred of the enemies of freedom everywhere. The attacks have shattered the illusions of post-cold war peace and replaced them with an uncertain world of "asymmetric threats".

The parallels with Japan's attack on Pearl Harbour in 1941, which brought America into the second world war, have been widely drawn and are in large part justified. There was the same shock of surprise. Colin Powell, the secretary of state, said there had been no credible warning. The enemy struck at the symbols of American might—its economic, military and (in intention at least) political power. The principal difference was that the targets were on the mainland, not thousands of miles offshore.

Even though the dead will not be counted for days, the casualties were almost certainly greater than the 2,403 who died at Pearl Harbour. This was the deadliest day's military action against Americans since the civil war. It represents a profound change both in the scale and the complexity of operations mounted by any terrorist group.

At Pearl Harbour, America could immediately identify its aggressor. The experience of the Oklahoma City bombing—blamed at first on Middle Eastern action, but later discovered to be perpetrated by an American—enjoins caution this time. But a growing amount of evidence points towards Islamic extremists, including, some say, the date itself. September 11th 1922 was the day when a British mandate came into force in Palestine, over the heads of unyielding Arab opposition.

In particular, America's leaders seem increasingly convinced that Osama bin Laden was responsible. He is one of the very few terrorists with the organisational power to carry out such an operation. Mr bin Laden's people recently talked of planning "very, very big attacks" on America. As Peter Bergen, the author of a forthcoming book on Mr bin Laden points out, all his operations have been preceded by boasts of this sort. They were not, alas, credible enough for the CIA.

Assuming that the enemy is Mr bin Laden, then the biggest difference from Pearl Harbour may eventually

be that America has no clear idea about what it means to go to war with him. In the immediate aftermath, America briefly behaved as if war had been joined in the old way. Financial markets were closed. Traffic into the capital was turned away. The ordinary business of life—airline flights, sporting events, shopping malls, Disneyworld—was shut. For a few hours, the government itself seemed headless, as the secret services spirited away the president and leaders of Congress to secure, secret spots.

Yet the assault of September 11th presents America not with a military challenge of the old definable sort but with a dilemma of a new type. The attacks were essentially on America's way of life. The temptation is to defy those attacks by going about the nation's business as usual. But that, of course, is not possible or desirable. At a minimum, stricter airport security will be imposed. The bigger question is how America, without compromising its own open society, can defend itself against a suicidal enemy who uses the very infrastructure of an open economy in order to wage war.

The answer will not be clear for years, and will depend crucially on the outcome of America's likely reprisals, unlaunched as *The Economist* went to press. But a few conjectures can be attempted.

Mr Bush called these "not acts of terrorism but acts of war". In other words, he will treat the assault not as a matter for an international criminal tribunal (as happened after the destruction of Pan Am 103 in 1988) or a cause for pinpoint cruise missiles (as after the bombing of America's embassies in Kenya and Tanzania in 1998) but as a *casus belli*. Who then would be the targets of that war? Mr Bush answered: "We will make no distinction between the terrorists who committed these acts and those who harbour them." This must mean America is considering attacks on the military bases and government buildings of the countries that give Mr bin Laden and his like safe harbour: Afghanistan, of course, but possibly also Iraq (implicated in an earlier attempt on the World Trade Centre) and Iran, with the fainter likelihood of Pakistan, Sudan and Syria.

Such a policy would obviously challenge America's allies, some of whom, notably France, have condemned mild attacks on Middle East terrorists. But the scale of the killings may change allied minds. The day after them, NATO invoked Article 5 of its treaty for the first time: this says that an attack on one member is an attack on all. Mr bin Laden has previously shown an interest in acquiring chemical and nuclear weapons. The mass murders in New York and Washington show the seriousness of that possibility. NATO may well take the view that the next time he strikes, there will be a mushroom cloud.

Counter-terrorism will also take centre-stage in America's reordering of its defence priorities. In March, a commission on national security chaired by former Senators Gary Hart and Warren Rudman argued presciently that a "catastrophic attack against American citizens on American soil is likely over the next quarter-century. The risk is not only death and destruction but also a demoralisation that could undermine US global leadership. In the face of this threat, our nation has no coherent or integrated government structures."

The report argued that the Pentagon should be reorganised to reflect these threats; that the special operations division dealing with "low intensity" conflicts should be given more clout (critics claim it has been downgraded by the priority given to missile defence); and that a counter-terrorism tsar should be created, with cabinet rank, to co-ordinate the many different agencies that get in each other's way when responding to terrorism. On May 8th, the vice-president said he would take over this task.

Lastly, the attacks may seem to vindicate critics of Mr Bush's proposed missile defence, who say the biggest threat to America comes not from missile programmes of rogue states, but from terrorists' "suitcase bombs". Logically, that point may be justified. But in their new vulnerability Americans may want defence of all sorts—and be willing to pay for it. You don't tear up your fire insurance because your house has been flooded.

Such arguments will form the debates of a new era of shadow war. No one can know in advance where they will lead. But wherever it is, the starting point is the awful wreckage in lower Manhattan under which so many Americans lie buried.

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The administration

Delayed reaction

Sep 13th 2001 | WASHINGTON, DC
From The Economist print edition

Who was running the country?

THE terrorists may not have succeeded in paralysing the American government, as they clearly intended. But they certainly sent it into a defensive crouch. Until dusk on Tuesday the need to protect the lives of leading politicians, particularly the president, seemed to override all other considerations, such as rallying public opinion.

The first news

George Bush was told that a second aircraft had hit the World Trade Centre while he was visiting a school in Sarasota, Florida. He wanted to return to Washington. But the gigantic security apparatus that surrounds the president had different ideas. Convinced that the president was a target, they kept him airborne on Airforce One for much of the day. At one point, officials contemplated keeping him overnight in an underground bunker at the Strategic Command near Omaha, at the controls of the country's nuclear arsenal.

The obsession with security was pervasive. Dennis Hastert, second in the line of presidential succession, was whisked away on helicopters to an undisclosed "secure location". So were other congressional leaders. The vice-president, Dick Cheney, and Condoleezza Rice, the national security adviser, remained in an underground bunker in an otherwise evacuated White House.

With key officials either in the air or underground, the job of reassuring the country fell, for the most part, to local politicians and retired dignitaries. Rudy Giuliani was a pillar of strength. Old hands such as Lawrence Eagleburger put the horror in context. In mid-afternoon, Mr Bush's counsellor, Karen Hughes, appeared at FBI headquarters to insist that "your federal government continues to function effectively."

The vacuum was filled at about 7pm when Marine One, the presidential helicopter, ferried Mr Bush to the South Lawn of the White House. Mr Bush had finally decided that this hopscotching could not continue. In an important symbolic moment, he snapped a salute to his Marine guards and strode across the lawn to the Oval Office.

In the evening, a succession of cabinet ministers addressed the country; Donald Rumsfeld spoke from the shattered Pentagon. About 150 members of both houses of Congress massed on the steps of the Capitol to listen to Mr Hastert and Tom Daschle pledging that America would stand united against terrorism. They then burst into a spontaneous rendition of "God Bless America".

Just after 8.30pm, Mr Bush spoke to the country from the Oval Office. He was forceful and to the point; but the important thing was the sight of the president back in place, in charge at last.

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New York

No surrender

Sep 13th 2001 | NEW YORK
From The Economist print edition

Terrorism has crushed the World Trade Centre, but not New York's spirit

"FOR your safety, leave." This was the urgent message broadcast by police in lower Manhattan on the morning after the World Trade Centre was destroyed by suicidal terrorists. In its own strange way, the need for such an announcement demonstrated the resilience of New Yorkers. Rather than fleeing the disaster, they were already hoping to return to their homes or offices, to volunteer their help, or to gaze in awe at the gigantic funeral pyre that used to be the symbol of New York's financial pre-eminence.

A lucky one

Within hours of the attack the city had become a police state. All the bridges and tunnels giving access to Manhattan were sealed; you could leave but not get back. By the next day, Manhattan was a series of zones of varying degrees of militarisation. Most extreme was the southern tip of the island, including the financial district, where only rescue workers were allowed in. Most of this area was carpeted with several inches of ash, probably including asbestos. Thick smoke still poured from the gap that used to be the twin towers. The only sounds were of sirens and bulldozers. It is likely to remain that way for days to come. Normality returned block by block as you moved uptown. By midtown, streets were quite crowded, and restaurants were doing a brisk trade.

If the terrorists thought they would trigger a widespread panic, they failed. Quite the opposite occurred. New York rose to the dreadful challenge. Cab drivers ripped out seats to ferry victims from the scene. Hundreds of thousands of workers remained calm as they evacuated downtown, walking quietly uptown and across bridges, even as the towers collapsed behind them. So many people offered to donate blood that many were turned away. Those lucky enough to get service on their cell-phone were sharing it with others desperate to contact loved ones. The worst incident—a Middle-Eastern-looking taxi driver being screamed at—would sadly count as normality on any other day.

The next week will test this resilience. Everyone will know someone who has died. (In this respect, the destruction of the World Trade Centre will surely exceed other epochal events in the city's history, such as the sinking of the *Titanic*.) Two industries have been hit particularly hard—finance and the rescue services (police and fire). New York's finest lived, and died, in keeping with their reputation. Financial workers descending stairs 35 storeys up the World Trade Centre tell of fire-fighters carrying heavy equipment climbing past them up into the gloom. Probably none of them made it out.

With hindsight, the emergency response made the death-toll higher. Many who obeyed the first building-wide announcements to remain calmly in their offices died as a result of that decision. Thankfully, many headed straight for the exit. The plan was that only people in the floors immediately above and below the fire were to be evacuated, so as to avoid a stampede.

Those in charge never imagined that the building, designed to survive the impact of an air crash, could collapse. But the terrorists used aircraft bound for the west coast and laden with fuel. They generated such heat when they exploded that steel girders supporting the building melted. Collapse was so unthinkable that the fire department's command centre was set up too close and was crushed when the building fell, killing senior officers.

The aftermath

It remains to be seen if anybody deserves blame for this costly error. What is clear is that New York had devoted at least as much hard thought to responding to terrorist attack as any other city. Emergency procedures were greatly improved after the bomb attack on the World Trade Centre in 1993—which killed six people and injured around 1,000, and made it clear to officials that things could have been much worse. Better lighting in stairways in the twin towers certainly saved lives. Plans for smoothly co-ordinating emergency services were hampered when the mayor's state-of-the-art office of emergency management had to flee to a fire station after being evacuated from a building that later collapsed.

The mayor himself, Rudolph Giuliani, was an inspirational figure. He was on the scene immediately, and came close to being killed in the collapse. His personality can sometimes grate, but here he rallied rescue workers, spoke wisely from the heart, and alongside his old foe, Governor George Pataki, embodied the bloodied but unbowed spirit of New York. The city, he said, would come out all the stronger. He will have won back at a stroke much of the affection lost by his misjudgments over policing and his personal life in recent years. And as Mike Tomasky, a columnist at *New York* Magazine puts it: "With dozens of freshly buried police officers under the rubble, I don't think that police brutality will now be top of anyone's mind."

Under Mr Giuliani New York has been a city reborn, enjoying until recently a booming economy and dramatic reductions in crime. Term limits will force him out of office in January. The primaries to select his replacement were due to take place on the day of the attack, and were swiftly postponed. New Yorkers may now wish that the election itself were put off indefinitely. Certainly, the tone of the election may now change.

The irony, says Mark Schmitt, a former political adviser to Bill Bradley, a Democratic senator and presidential candidate, is that until now the city's mayoral hopefuls have assumed New Yorkers want someone different from Mr Giuliani. They have thus distanced their personal styles from his. "Now everyone is starting to say; 'Thank God Giuliani was there: we need another like him.'"

The worry is that the destruction of the World Trade Centre will come to symbolise the end of the good times under Mr Giuliani, and the beginning of a backslide. Has the city's good luck run out? Mr Giuliani has proclaimed "business as usual", and urged New Yorkers to go about eating and shopping as if it were any other day. He has also set up an emergency "economic development task-force", including prominent business leaders, to send out a signal of confidence. A big challenge will be to reassure tourists, who during the summer were flocking to the city as never before—although this is likely to depend more on the actions of the federal government, which has to prevent a repeat of this attack, than anything New York can do.

The recovery of the city will not be complete while a gaping hole remains in its famous skyline. One option is to build a memorial, like that in Oklahoma, commemorating those murdered by Timothy McVeigh. Mr Giuliani says that some substantial building will be built on the site, though its precise shape remains to be decided. Robert Stern, dean of the Yale School of Architecture, suggests rebuilding the Twin Towers, either identically or in some new version, as a symbol of defiance. "Its destruction was a horrible act, and we should show that we can't be defeated." That looks unlikely; but it would reflect the current indomitable spirit of a city that will never give in.

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Washington, DC

A scarred capital

Sep 13th 2001 | WASHINGTON, DC
From The Economist print edition

The citizens of Washington have also been through a nightmare

IT IS a grisly measure of the devastation visited on New York that the murder and mayhem wrought on the nation's capital seem mild. By any other comparison, the attack on the Pentagon would probably have counted as America's worst disaster. Estimates for those who died range from 100 to 800, though Donald Rumsfeld, the defence secretary, insists the latter may be too high.

When American Airlines flight 77 tore a gaping hole in one of the largest office buildings in the world, it dragged the capital from the complacent calm of a sunny September morning into an eerie world of destruction, tension and terror. As thick plumes of smoke billowed into the sky across the Potomac, the city was transformed in minutes. Government buildings—the White House, Treasury, State Department and Congress—were evacuated at speed. Politicians literally disappeared, whisked off to unknown safe houses in cars and helicopters. At the Capitol, staff streamed from exits as police told them to run, amidst fears of another air attack.

Within half an hour, downtown streets were teeming as offices closed. Queues for pay phones stretched a dozen deep; cell-phone networks collapsed as thousands of Washingtonians tried to call home. Groups of people huddled around transistor radios in scenes reminiscent of a generation before the information age. Rumours swirled. There were reports—later proved false—of car bombs outside the State Department, fires on the Mall and attacks on the Capitol.

The mood was tense, but not one of panic. People remembered Dallas when Kennedy was shot; they nodded when politicians talked of Pearl Harbour on the radio. Food stalls with their radios turned on did a roaring trade. Seven office workers jammed on a pick-up truck claimed they were "off to Vegas". But most people looked sombre and scared. And within a couple of hours they had all gone. The streets were deserted, save for emergency vehicles and snipers on roofs. Washington had emptied, and with all roads into the city closed, the capital—like America itself—seemed sealed off.

At the Pentagon, the hijacked aircraft ripped a 200-feet-wide (61-metre-wide) hole in one side of the building. Mr Rumsfeld helped people on to stretchers before being whisked off to the National Military Command Centre, deep inside the compound. Twenty-four hours later, the fires were still burning at the Pentagon. Even though offices had reopened, security was still tight with soldiers from the National Guard in armoured personnel-carriers on the streets. Mr Bush visited the site, and the grim search for bodies continued.

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The perpetrators

Who did it?

Sep 13th 2001
From The Economist print edition

The prime suspect is Osama bin Laden. Proving his guilt will be another matter

EARLY on in the assault, George Bush talked about an "apparent" terrorist attack. Although suspicion immediately fell on the FBI's most wanted man, Osama bin Laden, Mr Bush's caution is reasonable. The last time America witnessed an outrage on a remotely similar scale, in Oklahoma City in 1995, officials were quick to blame Muslim fanatics, only to discover that an American had done it.

That seems unlikely this time around. Americans are not prone to suicide attacks. The right-wing militia movement that spawned Timothy McVeigh, the Oklahoma bomber, is a shadow of its former self. The group to which McVeigh himself once belonged no longer has enough members with military experience to conduct proper training exercises. The likelihood of one of its counterparts marshalling the expertise to hijack and fly four commercial airliners is small. And the militia movement is now closely watched.

The killing fields

Major single acts of international terrorism
(number killed)

United States as main political target

Apr 1983	US Embassy, Beirut, suicide bomb *(63)*
Oct 1983	US Marine barracks, Beirut *(299)*
Dec 1988	Pan Am flight over Lockerbie *(270)*
Feb 1993	World Trade Centre, New York city *(6)* *
Apr 1995	Federal building, Oklahoma City *(168)*
Jun 1996	US military complex, Saudi Arabia *(19)* *
Aug 1998	US embassies, Kenya & Tanzania *(224)* *
Oct 2000	*USS Cole*, Aden, Yemen *(17)* *

Other political targets

Jun 1985	Air India flight over Irish Sea *(329)*
Apr 1987	Bus in Colombo, Sri Lanka *(150)*
Sep 1989	UTA flight over Chad *(170)*
Jul 1994	Jewish centre in Buenos Aires *(96)*
Oct 1994	Suicide bus bomb in Tel Aviv *(23)*
Nov 1997	Tourists gunned down in Luxor *(62)*
Aug 1998	Omagh town centre bomb *(29)*
Sep 1999	Apartments bombed in Moscow *(118)*

*Osama bin Laden suspected of involvement
Source: *The Economist*

On the other hand, American intelligence about the Middle East has suffered lately, thanks to Arab anger at the plight of Iraqis under sanctions and Palestinians under Israeli occupation. Since the Palestinian *intifada* began last year, the State Department has worried that an outraged Arab might imitate the suicide bombings now common in Israel. It has issued several warnings about the threat of terrorist reprisals, including one on September 7th suggesting that militants might target Americans in Japan or South Korea. That implies that America had indeed expected an attack, but had disastrously bad intelligence about its nature.

Investigators have already turned up evidence pointing to Arab involvement. The *Boston Herald* has claimed that several men from the United Arab Emirates, including a trained pilot, had boarded one of the hijacked flights. Flight-training manuals in Arabic were reportedly found in a car parked outside Boston airport, where two of the planes were hijacked. Two suspects flew down to Boston from Portland, Maine—close to the Canadian border. There were also reports of triumphant telephone calls after the attack from Mr bin Laden's followers. On Wednesday, arrests apparently connected to the investigation were made in Boston and Florida.

But even if, as seems likely, the authorities soon establish that the perpetrators were Muslim militants, they will find it harder to work out who sent them. Latter-day Islamic terrorists operate more through a loose fraternity than through rigidly hierarchical organisations. Past arrests of suspected militants in Canada, Germany, Britain, France and Jordan, as well as the United States, leave a picture of like-minded individuals providing one another with frequent support, occasionally coalescing into groups for specific attacks.

Many of these comrades, including Mr bin Laden, made one another's acquaintance while fighting in Afghanistan. It may be possible to show that Mr bin Laden knew the perpetrators, but the paper trail is unlikely to reveal more than that. According to a Pakistani newspaper, he has already denied direct

involvement.

What did he do?

Nonetheless, there are several reasons to suspect Mr bin Laden. First, he is one of the few terrorists capable of orchestrating such a daring and complicated series of attacks. He was blamed for the audacious assault on the *USS Cole* in Yemen last year, when suicidal militants steered a dinghy full of explosives into the American warship in Aden harbour. Mr bin Laden specialises in multiple attacks. Members of his organisation, al-Qaeda, carried out simultaneous attacks on the American embassies in Kenya and Tanzania in 1998, according to testimony given in a trial this year by some of those convicted for the bombings. Again, however, prosecutors could not prove that Mr bin Laden ordered the attacks. America also fingered him for another (foiled) plot, to bomb a string of airports and aircraft on the eve of the millennium.

Next, Mr bin Laden recently released a long video, during which he repeated his usual fulminations against America. An Arab journalist in London says he had heard talk of an “unprecedented” action against the United States. That fits Mr bin Laden’s habit of circulating virtual advertisements of forthcoming attacks.

Above all, the World Trade Centre has particular resonance for Mr bin Laden. It was there that the first big terrorist attack on American soil was mounted, in 1993, when a group of Egyptian, Pakistani and Palestinian terrorists planted a car bomb in the basement car park of one of the now-toppled twin towers. American investigators have long suspected that Mr bin Laden was involved.

A doubt is raised, however, by recent testimony in the trial of the East African bombers. Mr bin Laden’s former associates suggested that he was running short of funds. They also described endless bickering and confusion among his men. His former accountant, America’s star witness, stormed out of al-Qaeda after being refused a loan. If he was behind yesterday’s horrors, Mr bin Laden had clearly found some more dedicated employees.

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Afghanistan

A bitter harvest

Sep 13th 2001 | LAHORE
From The Economist print edition

The sufferings of Afghanistan come to New York

IN ITS understandable rage for justice, America may be tempted to overlook one uncomfortable fact. Its own policies in Afghanistan a decade and more ago helped to create both Osama bin Laden and the fundamentalist Taliban regime that shelters him.

The notion of *jihad*, or holy war, had almost ceased to exist in the Muslim world after the tenth century until it was revived, with American encouragement, to fire an international pan-Islamic movement after the Soviet invasion of Afghanistan in 1979. For the next ten years, the CIA and Saudi intelligence together pumped in billions of dollars' worth of arms and ammunition through Pakistan's Inter-Services Intelligence agency (ISI) to the many mujahideen groups fighting in Afghanistan.

The policy worked: the Soviet Union suffered such terrible loses in Afghanistan that it withdrew its forces in 1989, and the humiliation of that defeat, following on from the crippling cost of the campaign, helped to undermine the Soviet system itself. But there was a terrible legacy: Afghanistan was left awash with weapons, warlords and extreme religious zealotry.

For the past ten years that deadly brew has spread its ill-effects widely. Pakistan has suffered terrible destabilisation. But the *afghanis*, the name given to the young Muslim men who fought the infidel in Afghanistan, have carried their *jihad* far beyond: to the corrupt kingdoms of the Gulf, to the repressive states of the southern Mediterranean, and now, perhaps, to New York and Washington, DC.

Chief among the *afghanis* was Mr bin Laden, a scion of one of Saudi Arabia's richest business families. Recruited by the Saudi intelligence chief, Prince Turki al Faisal, to help raise funds for the *jihad*, he became central to the recruitment and training of mujahideen from across the Muslim world. Mr bin Laden fought against the Russians on the side of the ISI's favourite Afghan, Gulbuddin Hikmatyar, whose Hezb-e-Islami party became the largest recipient of CIA money.

After the Russians withdrew from Afghanistan in 1989, the Americans quickly lost interest in the country and a struggle for power erupted among the mujahideen. But since no group was strong enough to capture and hold Kabul, the capital, Afghanistan slumped into anarchy. In 1995-96, a movement of Pathan students—Taliban—from religious schools in the border regions of Afghanistan and Pakistan swept the country, promising a restoration of order. They enjoyed Pakistani backing, and almost certainly the approval of the Americans.

Meanwhile, Mr bin Laden had become a self-avowed enemy of America, appalled at the presence of American troops on holy Saudi soil during the Gulf war. Exiled to Sudan, he was soon forced to leave. He secretly returned to Afghanistan, becoming a guest of the Taliban, whose interpretation of Islam and hostility to the West he shares. After attacks on two American embassies in 1998, America tried to persuade the Taliban to surrender him. When the regime refused, the Americans retaliated by raining cruise missiles on guerrilla camps in Afghanistan. The Taliban have steadfastly refused to hand Mr bin Laden over. As their guest he remains.

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The Middle East

Mixed emotions

Sep 13th 2001 | CAIRO
From The Economist print edition

The Israelis claim vindication. Arabs fear the worst

THE Middle East reacted to America's tragedy with a predictable jumble of emotions. In Israel, there was universal horror and sympathy, tinged with more than a hint of "We told you so." The Palestinians passed swiftly through several phases, ending with a near-universal feeling of foreboding and dismay.

Reuters

Gaza's joy faded

The constant refrain in Israel, right across the political spectrum, was "Now the world will understand us." The attacks on America, said the daily *Ma'ariv*, were "the most important public relations act ever committed in our favour." If the attack on the twin towers is America's second Pearl Harbour, Israel sees itself as a latter-day Britain, fighting alone against the scourge of terrorism until America is galvanised, belatedly but not too late, into leading a new world war to save civilisation.

Shimon Peres, Israel's foreign minister, urged Yasser Arafat, the Palestinian leader, to see the cataclysm as an opportunity to distance himself from the region's radicals and resume peace talks with Israel. But on Israel's own radical right there are some who want to seize the chance to dismember the Palestinian Authority and drive out Mr Arafat. "We must destroy the terrorist regime that confronts us," wrote Binyamin Netanyahu, a former prime minister, in an unmistakable reference to the Authority.

Mr Arafat, visibly shaken by the attacks, seemed to take Mr Peres's advice. He was quick to declare the terrorist strikes "a crime against all humanity and not just the Americans". On September 12th, he deferred a long-heralded visit to Damascus that was to have signalled to Washington that he would seek harder-line allies if America and the Arab moderates continued to disappoint him. The time was not right, he wisely decided, for such a signal.

Mr Arafat's police force also clamped down quickly on displays of joy by Palestinians in East Jerusalem and on the West Bank. Such scenes were real, of course. The Bush administration's apparent disengagement from the region, coupled with Israel's use of sophisticated American weaponry to target Palestinians, has instilled a sense that America is no longer just Israel's distant benefactor, but is complicit in Israeli "crimes".

Yet there is another side. The carnage in America is widely seen as having set back a range of Arab causes, especially the Palestinian campaign to win global sympathy. A recent poll found that three out of four Americans backed the idea of a Palestinian state. In the short term, Palestinians are now afraid that Israel can ratchet up its military operations in the West Bank and Gaza with little chance of facing an American rebuke. On September 12th and 13th, when an Israeli armed incursion into the West Bank town of Jenin left at least 12 Palestinians dead, America's media hardly noticed. The more America equates the Palestinian struggle for national independence with "terror", the more latitude it is likely to grant Israel in crushing it.

In a reflection of such anxieties, Arabic media coverage quickly shifted from factual reporting of the atrocities to anguished predictions that Arabs and Muslims were likely to be blamed for them. The first group to be named in connection with the hijacking in the world media, the radical Democratic Front for the Liberation of Palestine, immediately denied the charge. Fear of being singled out as scapegoats also prompted some of America's staunchest foes in the region—from Hizbollah in Lebanon, to Muammar Qaddafi in Libya, to other militant Palestinian factions from left and right—to swift and fulsome denials of

any link with the attackers. There was horror in these denials too. Even among America's most bitter Arab critics, there is scant satisfaction for this spectacular and bloody "revenge".

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Solidarity from Europe

Old friends, best friends

Sep 13th 2001 | BRUSSELS
From The Economist print edition

By declaring the assault to be an attack on NATO, Europe has acted decisively

THERE can be no doubting the sincerity or the depth of the shock and sympathy felt in Western Europe after the attacks on New York and Washington. Relations between the European Union and America have been strained in recent months. There have been disagreements over trade, global warming and missile defence. But these have been set aside.

All for one, one for all

The EU leaders were not mouthing platitudes as they expressed their horror at the death and destruction across the Atlantic. Nor were America's NATO allies inclined to mince words of powerful symbolism: for the first time in its history, the NATO alliance that binds Europe and North America invoked Article 5 of its mutual defence treaty, declaring this attack on America, if directed from abroad, to be an attack on all.

In Brussels flags of the EU flew at half mast and diplomatic receptions were cancelled. Football matches in the Champions League were suspended. September 14th was declared as a day of mourning across Europe, and three minutes of silence will be observed across the EU. On the day of the attacks, a clearly shocked and emotional Tony Blair vowed that Britain would stand "shoulder to shoulder" with America in seeking out and punishing the perpetrators. Gerhard Schröder, Germany's chancellor, summed up the general European reaction, calling the attacks "a declaration of war on the free world".

Might this boundless solidarity actually encompass military action? The council of the 19-member NATO alliance, at its headquarters in Brussels, held three emergency meetings within 36 hours of the attack. Lord Robertson, its secretary-general, held a rare joint meeting with the EU's foreign ministers. Senior NATO officials acknowledged that under Article 5 of the Atlantic alliance's founding treaty, all members would be obliged to "take such action as is deemed necessary including the use of armed force", in common defence of NATO territory.

Some, including in the United States, had assumed that this mutual defence commitment was increasingly meaningless in the modern world, with the Russian threat on the wane. NATO, it was argued, was becoming more of an amorphous collective security club, rather than a tight collective defence alliance, with its forces now committed to leading peacekeeping coalitions in the Balkans rather than defence of its members' territory. That mood may now change with the attacks on America. But any joint military action will obviously depend on developments in the crisis, not least identifying an enemy.

Not everybody in Europe sang from the same sheet. On the fringes of the European left there were voices suggesting that the attacks on America were a consequence of the evils of American foreign policy. George Galloway, a Labour MP in Britain known for his sympathies with Iraq, wrote in the *Guardian* newspaper that the attacks were "a challenge to the hitherto untrammelled ability of the US to deal out death and destruction." Horrific rants appeared from the anti-globalisation camp.

The reaction of the French left, often regarded as reflexively anti-American, was very different. Jean-Marie Colombani, the editor of *Le Monde*, wrote a column headlined "We are all Americans" and dismissed the idea that the attacks were the revenge of the world's dispossessed on America as "monstrous hypocrisy". *Libération*, the other leading French left-of-centre paper, called for "extreme severity against identifiable culprits", while cautioning against "blind vengeance".

This fear that the United States might now lash out indiscriminately found echoes in the corridors of the EU. Some officials worried that it would be hard to tread the fine line between solidarity with America and unqualified support for all retaliatory actions. But the Europeans also hoped that clear expressions of solidarity—and offers of support—would convince the United States that it is not alone in a hostile world.

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Airport security

The end of the line

Sep 13th 2001 | NEW YORK
From The Economist print edition

America's airports were caught wanting. They need a drastic overhaul

ONE clear lesson of this tragedy: security at airports was appallingly lax. Terrorists carrying little more than knives and cardboard-cutters managed to hijack commercial planes at some of America's biggest airports. Belatedly, the Federal Aviation Authority (FAA) is tightening standards. But this is a case of shutting the stable door after the horse has bolted.

The minimum requirement

Although the FAA issues security regulations, it has left the implementation of its guidelines to the airports, which oversee airport security, and the airlines, which screen passengers and baggage. Cost-conscious and wary of annoying passengers with bag searches and body-frisks, the airlines place security in the hands of contracted security firms, which in turn rely on underpaid, badly trained screeners.

Some of the worst security breaches have occurred at Boston's Logan airport, where two of the four airlines were hijacked. In the late 1990s, FAA officials disguised as passengers repeatedly succeeded in smuggling guns and pipe bombs onto planes at Logan. Logan was fined less than $200,000. Just last month, the FAA announced that it was seeking $99,000 in civil penalties against American Airlines for failing to apply "appropriate" security measures on six flights last year.

Gerald Dillingham, director of civil aviation issues at the General Accounting Office, which began an investigation of security at America's airports after the crash of TWA flight 800 in 1996, says the FAA took too long and did too little to enforce its guidelines. Mr Dillingham particularly blames the FAA for not monitoring closely enough the standards of pay and training of the private security firms employed by the airlines.

Some screeners are paid as little as $6 an hour—less than they would get for working in a burger joint. Most European screeners are paid the equivalent of $15 an hour plus benefits. Screeners in other countries are better trained too. In the Netherlands they receive 40 hours of classroom training, two months of on-the-job training, and 24 hours of additional training each year to stay qualified. In America firms often give only eight to 12 hours of classroom training and just 40 hours of on-the-job training. Amazingly, eye examinations are not always mandatory.

Low pay and poor training mean there are few really experienced screeners. According to the GAO, 90% of all screeners at any given airport checkpoint have less than six months' experience. Their average turnover rate nationally is 126%. At Logan airport the rate is two-thirds higher. In Belgium, by contrast, turnover is less than 4%.

A journalist from *The Economist* examined procedures at LaGuardia and JFK last year. One screener who worked for a private security firm was open about her difficulty in distinguishing objects as she screened bags, admitting that she "did not see so good." And high-tech screening machines are no good if workers don't use them. At LaGuardia, two screeners operated a $9m machine that can scan up to 225 bags an hour for explosives. But in the half-hour observed by *The Economist*, the women screened just two.

The lack of concern about security was endemic. One Port Authority police officer stationed at LaGuardia confessed that, when not in uniform, he often got his gun past screeners. "I just go around the machine," he said.

On the day after the attacks the FAA announced new security measures, including random identity checks, a ban on kerbside check-ins, an end to the sale of knives in airports and the use of dogs and armed guards to patrol the terminals. The FAA will also dramatically increase the number of plain-clothes marshalls flying incognito on planes in America. Logan airport is posting state police officers at security checkpoints. If only they had thought of that before.

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Ecuador

Squandering an unlikely recovery

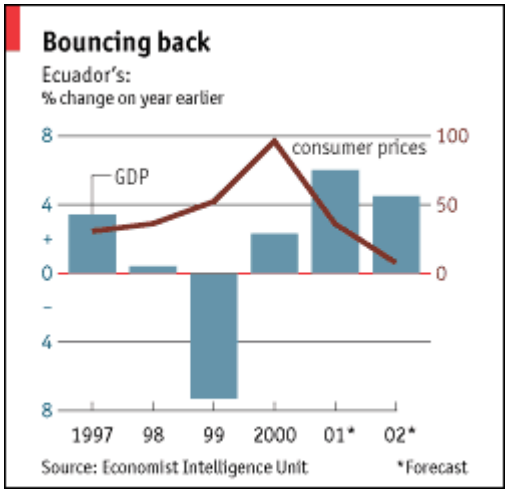
Sep 13th 2001 | QUITO
From The Economist print edition

Dollarisation and oil have turned a basket case into the region's bounciest economy. That probably won't last

Get article background

WHEN Gustavo Noboa, Ecuador's quiet and politically inexperienced vice-president, was handed his country's presidency in January 2000 after an attempted coup by army colonels and radical Andean Indians, few people expected him to last long. The sixth president in six years, Mr Noboa had no electoral or legislative base and inherited an economy in its biggest mess for more than a century.

Less than two years later, not only is Mr Noboa still there, but there has been quite a transformation. The decision to adopt the dollar as the country's currency—one of the last acts of his hapless predecessor—has brought inflation down (see chart). Ecuador is now Latin America's fastest-growing economy, its GDP set to expand by over 5% this year. Much of the social unrest of recent years has died down.



The public finances should end the year in balance. Businesses are starting to invest: loans to private firms are up, while for the seven months to July imports of capital goods increased by 52% over the same period last year. Consumer demand is picking up, with car dealers expecting record sales. Unemployment has fallen to 10.4%, from 16.8% in January 2000.

Much of this recovery, of course, is merely clawing back ground previously lost. It has been greatly helped by high prices for Ecuador's oil exports. Dollarisation is bringing economic stability, but can it also bring sustainable growth?

The prospects are not wholly bleak. A second oil pipeline, costing $1.1 billion, is being built. It should raise oil exports by at least half, and attract investment in exploration and development of around $3 billion. Many economists reckon that inflation should fall to low single digits by the end of 2003, and that GDP could expand by 4-6% over the next three years.

But much could still go wrong. Oil has covered up mistakes by the government, and by the country's fractious politicians. If dollarisation is to spare Ecuador the slump suffered by Argentina (whose currency is pegged to the dollar), the government must strengthen public finances. But an increase in VAT, from 12% to 14%, was struck down by the Constitutional Court in August, while Congress has voted to widen exemptions from VAT and income tax. Neither has Mr Noboa made progress in his plans to privatise electricity companies. And Congress has overturned a government effort to make the country's labour laws more flexible, even though exporters are starting to struggle.

With reforms hobbled, last month Mr Noboa unveiled a bill intended to tackle political deadlock, which pits fragmented parties and regional blocks against each other, and which has plagued Ecuador since the end of military rule in 1978. It would add a second chamber to Congress, and create a first-past-the-post electoral system. To strengthen the executive's position, congressional elections would be held at the

same time as the run-off ballot for the presidency, and the vice-president would head Congress.

Mr Noboa's team have also drawn up a proposed new fiscal reform. This would end the earmarking of revenues, and set up a stabilisation fund. The fund would receive a slice of the revenues from the oil exported through the second pipeline. It would be used to buy back debt, and as a cushion in hard times.

Unfortunately for Mr Noboa, the politicians have their mind on the presidential election due in October 2002. Political analysts say that it is unlikely that either of the government's main proposed reforms will be approved. Whether dollarisation was the right policy for Ecuador is now a matter for academic debate. In doing their best to ensure that it will not be accompanied by policies that might deliver stable growth, Ecuador's politicians are squandering the country's best development opportunity in a generation.

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Politics in Brazil

Middle men

Sep 13th 2001 | SAO PAULO
From The Economist print edition

Candidates jostle in the centre

POLLING is still 13 months off, but the first important event in Brazil's presidential election campaign happened on September 9th—and it went as well for President Fernando Henrique Cardoso as he might have hoped. His coalition's largest party, the catch-all Brazilian Democratic Movement (PMDB), chose Mr Cardoso's preferred candidate as its new chairman. In doing so, it rejected a rival backed by Itamar Franco, Mr Cardoso's predecessor and now his bitter foe. Had things gone otherwise, the PMDB would have left the government and run with Mr Franco as its presidential candidate.

Having been re-elected for a second term in 1998, Mr Cardoso cannot run again. But he wants a successor of his own choosing. That might be easier if the election were to be a straight fight with Luiz Inacio Lula da Silva, the perennial candidate of the left-wing Workers' Party, who leads the opinion polls but lost the past three elections. Mr da Silva, too, would like to present himself as the only candidate of change. But one or more challengers may yet emerge from the soft left.

One of them might still be Mr Franco himself. The PMDB conference agreed to call a further meeting in January, supposedly to choose its own presidential candidate. In fact, it is likely to put up a weak "dummy" candidate or perhaps seek to provide the running-mate for the candidate of Mr Cardoso's Social Democrats (PSDB). But if the economy, and thus the government's popularity, took a serious dive, Mr Franco might win his party over.

The strongest soft-left challenger is Ciro Gomes, a former governor of the north-eastern state of Ceara who was also, briefly, Mr Franco's finance minister. He won 11% of the vote in 1998, coming third behind Mr Cardoso and Mr da Silva. Since then he has continued to campaign. He talks sensibly on some issues: about the need for tax and social-security reforms and about Mr Cardoso's lack of action over corruption allegations against some coalition figures. Some businessmen like his calls for a more active industrial policy (read: subsidies and protectionism).

Mr Gomes's most controversial proposal, to arm-twist local (but not foreign) holders of government bonds to accept a debt restructuring, does not seem so radical now that the IMF is backing a wider restructuring for Argentina. But he still scares investors. Lacking a solid team of advisers, he fires off wacky ideas (such as a plebiscite on tax reform) and seems over-confident of his ability to solve Brazil's problems single-handedly. His biggest handicap is that, in a huge and diverse country that can be governed only by coalition, he belongs to a tiny party.

A further contender might be Anthony Garotinho, the governor of Rio de Janeiro, who fares reasonably in the polls. But like Mr Gomes he belongs to a small party and lacks coherent policies.

The economy will be the decisive factor in the election. But the result may also turn on whom Mr Cardoso chooses to anoint as the coalition candidate. The strongest contenders are Jose Serra, the health minister, and Tasso Jereissati, Mr Gomes's successor in Ceara. Whoever is chosen, supporters of the disappointed contenders could switch to one of the soft-left challengers. No wonder Mr Cardoso is trying to put off his choice until as late as possible.

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Mexico's tequila

Drought in Margaritaville

Sep 13th 2001 | TEQUILA, MEXICO
From The Economist print edition

Counting the cost of success

ON THE low hills around the Tequila volcano, neat rows of spiky, cactus-like agave plants march across the dusty fields, as they have for centuries. But recently farmers have started to treat the blue-green plants, from which Mexico's emblematic national spirit is distilled, as if they were made of gold. In Jesus Partida's field full of baby agaves, watchmen patrol at night. "You plant the agave today, and tomorrow it's not there any more—they come at night or early in the morning and steal it," he says. Police escort the lorries piled high with *pias*, the pineapple-shaped agave hearts, along the winding roads to the distilleries in the town of Tequila.

Two years ago a tonne of the *pias* fetched around 1,000 pesos ($106); now it can cost up to 15,000 pesos. The problem is an old one: a mismatch of supply and demand, exacerbated by bad weather and good marketing.

Mexico's old-fashioned land laws prevent the distilleries from owning farmland. Relations between the country's agave growers and the tequila producers "have not been as brotherly as they could have been," says Jose Angel Gonzalez, of the growers' union. That lack of co-ordination has caused three or four supply shortages in the past four decades, he says. Poor farming methods, such as failing to rotate crops or use pesticides properly, have not helped either.

This time the shortage is acute, with production down by as much as half. A freak winter frost hit the Tequila area in 1997. Then a fungus attacked the weakened plants. Since an agave takes eight years to grow to maturity, the market will not return to balance quickly.

The shortage is especially painful because it began just as the industry was booming. Most tequila used to be cheap and rough, best swigged in one go. But in recent years distillers have taken their product upmarket. More refined brands have sold well, especially those of pure agave liquor, unblended with other alcohols. Too well, in fact: between 1995 and 1999, total tequila production nearly doubled, but that of the pure-agave varieties almost quadrupled. As a result, by 1999 the industry was using nearly three times as much agave as five years before.

Hence the tequila drought. Last year output began to fall. Distillers have responded by making less of the pure-agave drink. But a few small ones have had to close. And the industry regulator has caught a few others making tequila from agave grown outside the officially permitted areas (a sin as bad as making champagne from Californian grapes).

The industry is now trying to plan its future. The distillers have talked to growers about signing purchase contracts for agaves when they are planted. The regulator has stepped in with a computerised registration system for growers.

Still, it will be another four years before the agave supply begins to recover, and perhaps longer before the distilleries can meet demand. By then, scarcity and high prices may have lost them some customers. Mexicans, at least, complain that tequila is now too expensive to drink.

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Democracy in Latin America

No coups, please

Sep 13th 2001
From The Economist print edition

Not even “constitutional” ones

THREATS to democracy can take many forms. As terrorists struck the United States, Colin Powell, the secretary of state, and foreign ministers from 33 other countries in the Americas, were meeting in Lima, Peru’s capital, to approve a charter intended to combat would-be dictators and *caudillos*.

Powell made a point

Drawn up by the Organisation of American States (OAS), this goes further than past agreements in threatening ostracism when democracy is interrupted. Importantly, it covers not just old-fashioned coups, but “an unconstitutional alteration of the constitutional regime” of the kind perpetrated by Alberto Fujimori when he shut down Peru’s Congress in 1992. The main sanction was already approved by the region’s leaders at their summit in Quebec in April, when they made democracy a condition for taking part in the proposed Free-Trade Area of the Americas.

Do such declarations matter? In a sombre atmosphere, Mr Powell made a point of staying to deliver a short speech before dashing back to Washington. But it is Latin American countries that have been reluctant to intervene when democracy has been threatened recently, as it was by Mr Fujimori’s efforts to stay in power by rigging an election last year. As a result, the OAS response has often been flabby, and may well continue to be.

Neither are the threats just political. “In the 1990s, the big discussion among Latin Americans was how were we going to strengthen democracy and keep the peace. That’s not an issue any more. Now the question is whether we’re going to be able to have economic policies with a human face,” says Ricardo Lagos, Chile’s president. Perhaps so, though some might say that even Chileans cannot take democracy for granted.

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Canada's water

Crazed by thirst

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From The Economist print edition

Canadians are in a lather over water exports

CANADIANS have been worrying about water this summer. First severe drought hit southern Alberta, Saskatchewan and Ontario, turning crops to dust. Then contaminated drinking water left seven people dead in Ontario, and thousands sick in Newfoundland and Saskatchewan. A proposal to export tanker-loads of water from Newfoundland to the United States has triggered alarm. Some Canadians even fear that the North American Free-Trade Agreement (NAFTA) threatens their government's ability to exercise sovereign control over their water.

Canada contains about one fifth of the world's fresh water. That abundance has long been the target of covetous eyes from drier Americans to the south. Inconveniently, most of Canada's big rivers flow north or east. In the 1960s American engineers dreamed up fanciful schemes to divert some of them to the south. Now some Canadian politicians see profit in exporting water southwards by easier means.

In the spring Newfoundland's premier, Roger Grimes, said he would consider a businessman's proposal to pay C$20m ($12.8m) a month to take 13 billion gallons of water a year from a lake and ship it to the United States. Mr Grimes said he was ready to lift Newfoundland's ban on such exports, but only after public hearings.

Opponents fear that this opens a hole in the dyke. Water has long been publicly owned and supplied in Canada (though there is an export trade in bottled water). However, if a province starts to export bulk water, that would turn it into a traded commodity. Critics claim that NAFTA would oblige Canada to supply its trading partners with water on the same terms it gives to its own consumers.

In fact, NAFTA says nothing about water supplies. Officials insist there is no need to worry. They point out that an amendment to the International Boundary Waters Treaty Act, due to be approved later this year, will prohibit the bulk removal of water from basins that straddle the border, notably the Great Lakes (Newfoundland will not be affected).

However, provincial governments have constitutional authority over natural resources. The federal government is pushing the provinces to agree to a national ban on the bulk removal of water from all drainage basins. Only half of the provinces have signed this, but the others have their own bans on

removing water.

Even so, the government faces vocal demands to enact a national ban on bulk water exports. It has no plans to do so. “Water is not a [tradable] good, it is a resource that needs to be managed,” says Pierre Pettigrew, the trade minister. Indeed: rising demand, pollution and climate change all mean that Canada is using most of its easily accessible water. That is partly because consumers pay a low tariff, unrelated to the amount used, which encourages waste. The environment ministry is now studying ways of pricing water.

In fact, it is not clear whether a federal law banning bulk water exports would trump provincial authority over natural resources. With Alberta and Quebec (and now Newfoundland?) jealous of provincial rights, such a law could trigger a constitutional squabble—something for which Canada’s prime minister, Jean Chrétien, may have no stomach. The political splashing looks unlikely to stop.

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China and the WTO

Ready for the competition?

Sep 13th 2001 | BEIJING
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The marathon negotiations on Chinese membership of the WTO are ending. For the government, the hard part may only now be beginning

IT HAS been 15 years since China first applied to join the multilateral trading system then called the GATT and now known as the World Trade Organisation (WTO). But with the talks at last drawing to a conclusion, the next task for China's leaders will be to make sure that public opinion remains favourable. Although some of the economic change necessary to prepare China for membership has already taken place, much painful restructuring still remains to be carried out, and with it the risk of growing public resentment.

A WTO working-party in Geneva was this week putting the finishing touches to the document spelling out the terms of China's accession. At midweek it was unclear whether agreement might be delayed by a dispute involving the EU and the United States over some market-access privileges in China enjoyed by American Insurance Group (AIG). But at any rate China's admission looks set to be formally approved at the WTO's ministerial meeting in Qatar in November. This will allow China to gain admission early next year, after China's legislature has rubber-stamped the protocol. Taiwan will be admitted shortly afterwards.

In the coming few years, China will be obliged by the WTO to cut import tariffs and give foreign businesses much greater access to potentially lucrative markets in such industries as insurance, banking and telecommunications that used to be highly protected. But it is impossible to honour the kind of promises China has made without upsetting a lot of people whose livelihoods will be undermined or whose privileges will be whittled away by the country's increasing exposure to foreign competition.

China's leaders had a brief taste of the dangers of a backlash in May 1999 after NATO's bombing of the Chinese embassy in Belgrade. In the angry crowds that gathered outside western diplomatic missions across China, there were mutterings about the trade concessions made by China's prime minister, Zhu Rongji, in order to secure WTO membership. In closed meetings, some officials even called him a traitor for allegedly giving away so much to the Americans.

But China's leaders wanted membership so much that they were prepared to ignore the complaints of the ultra-nationalists and officials at coddled state monopolies. The leaders thought WTO membership would boost flagging exports, force Chinese industries to become more competitive and bring in a surge of foreign investment. In November 1999 China reached an agreement with America containing the very concessions that Mr Zhu had been criticised for offering.

China's chief negotiator in the WTO talks, Long Yongtu, has tried to reassure the Chinese public by

stressing that membership will bring no great benefits or disadvantages. “Anything that is against our country’s interests, we simply won’t do,” he said earlier this year, though he added that China will respect its WTO commitments. But some Chinese scholars think the leadership is taking a gamble.

Last year a book by a young Beijing economist, Han Deqiang, called “Collision: the Globalisation Trap and China’s Real Choice” drew attention to what he argued were the pitfalls of WTO membership. Mr Han believes that many Chinese people are overlooking potential risks because of a “worship of market forces” and the alluring prospect of cheaper imported goods. Mr Han accuses the United States of plotting to use China’s WTO membership as a way of gaining control of China’s economy and speeding up the pace of “westernisation” in China.

Scholars such as Mr Han worry about the possibility of rising unemployment as uncompetitive enterprises are forced to lay off workers and consumers turn to imports. They fear also that what China gains from dismantling bloated government monopolies it will lose by surrendering more of its markets to control by big foreign companies.

The picture will be mixed. In the countryside, the problem of widespread underemployment will be exacerbated as cheaper agricultural imports pour in. Jun Ma, a senior economist at Deutsche Bank, thinks that 1.6m Chinese farmers will be thrown out of work for each of the next five years as a result of entry to the WTO. Hundreds of thousands of jobs in the car industry—at present protected by high tariffs—will be threatened.

At the same time new opportunities will be created in service industries and foreign-financed enterprises. Overall, there could be a net gain in jobs, but WTO membership will not reverse the trend of growing rural and urban unemployment. It is likely to aggravate disparities between regions as areas unencumbered by large numbers of state-owned enterprises make the biggest gains. Tim Condon, chief economist at ING Barings, Asia, says he does not believe that WTO entry will have an appreciable impact on GDP growth, which is likely to remain around 7%.

Next month, when leaders of the Asia-Pacific Economic Co-operation forum meet in Shanghai for an informal summit, China can be confident that it will not experience the kind of anti-globalisation protests that have dogged big gatherings of the kind elsewhere (though huge security precautions are planned anyway). But the danger is that, after China joins the WTO, there will be a growing tendency among ordinary Chinese to blame the organisationfor the suffering caused by restructuring, whether or not WTO-mandated changes are directly responsible.

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Afghanistan

The Lion clawed

Sep 13th 2001 | DELHI
From The Economist print edition

The Taliban's deadliest enemy is struck

IT IS scarcely surprising that mystery has surrounded the health and whereabouts this week of Ahmad Shah Masoud, the veteran Afghan warlord known as the Lion of the Panjshir, after he was the target of a suicide bomb attack last Sunday. Ever since he hit the international headlines in the early 1980s as a leader of the mujahideen resistance to the Soviet occupation of Afghanistan, Mr Masoud has been renowned for suddenly appearing and disappearing without warning in the Panjshir valley, his base in northern Afghanistan, or some other part of his territory. Even his closest aides rarely know where he is till he climbs out of one of his battered old hand-me-down Russian helicopters or a rather smarter Pajero jeep.

Dead or alive?

That technique has helped him survive both the Soviet occupation and the five-year-old guerrilla war against the Taliban, which he has led for Afghanistan's Northern Alliance since the Taliban took control of Kabul, the Afghan capital. But on September 9th the technique failed when a bomb exploded in a video camera carried by one of two men, believed to be Algerians or Moroccans, posing as journalists.

At midweek it still appeared possible that Mr Masoud might have survived the attack and be recovering either in Afghanistan or in neighbouring Tajikistan, which supports him logistically. However, a close aide, Assem Suhail, was dead and the pro-Masoud Afghan ambassador to Delhi, Masoud Khalili, had been injured. The attack took place at Khawja Bahauddin, a sprawling town where Mr Masoud has a helicopter base and a rest house, near both the Tajikistan border and one of the front lines with the Taliban.

In what was probably his last television interview before the attack, Mr Masoud virtually admitted last month that he had no hope of driving the Taliban out of Kabul and gaining control of the country. "The problem of Afghanistan does not have a military solution, but our achieving a military balance and equilibrium is essential," he said. He claims to control up to 30% of Afghanistan, but in fact probably has only 10-20%, with the Taliban holding the rest. His strategy is to harass the Taliban sufficiently for Pakistan to tire of providing it with financial and military equipment and know-how. Then he hopes that other foreign governments will put pressure on Pakistan to withdraw its support and help pull the Taliban into negotiations. Without Pakistan, said Mr Masoud, "the Taliban cannot last for six months."

He believes that the Taliban are no longer seeking the Northern Alliance's "total surrender" and are willing to do a deal that gives him his fief of Badakhshan, which includes the Panjshir. But that is not enough for a man who, as a moderate Muslim, wants to free his country of the Taliban's extreme form of Islam—and of Osama bin Laden, the Saudi terrorist who heads most lists of the suspects responsible for the devastation in the United States this week. This has given rise to the theory that Mr bin Laden may have been behind the bomb attack on Mr Masoud, in an attempt to secure his position in Afghanistan by ridding the Taliban of the man their leaders most fear.

Without the Lion, there would be little chance of removing the Taliban from power. He is the defence minister of the Badakhshan-based United Front government of Afghanistan, headed by President Burhanuddin Rabbani, that is still formally recognised by all countries apart from Pakistan, Saudi Arabia and the United Arab Emirates. But he is much more important as the leader of the anti-Taliban forces, which he holds together with his personality and presence, and with his record as Afghanistan's most experienced and respected guerrilla leader. If he were to die, the resistance would probably crumble as quickly as he claims the Taliban would fall if Pakistan withdrew its support.

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Fiji

Still divided

Sep 13th 2001 | SUVA
From The Economist print edition

The new government excludes the ethnic-Indian party

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Speight smirks

PERPETUAL political drama seems to dog Fiji. No party secured an overall majority in last week's general election, called to restore democracy after the coup last year. The party of Laisenia Qarase, an ethnic Fijian, did best, winning 31 of the 71 seats in parliament, and on September 10th he was sworn in as prime minister. As Mr Qarase was putting together a coalition government, the largely Indo-Fijian Fiji Labour Party, which won 27 seats, asked to take part. Under the constitution, the prime minister has to offer cabinet jobs to parties with 10% or more of the seats.

Mr Qarase had made a grudging formal offer to the Labour leader, Mahendra Chaudhry, hoping for a refusal. Such a government would be unworkable, he averred. But Mr Chaudhry accepted. Mr Qarase simply ignored the acceptance and announced a cabinet composed entirely of ethnic Fijians.

The Pacific country is split between ethnic Fijians and descendants of Indians brought in the 19th century to work in the sugar plantations. They make up 44% of the population. Mr Chaudhry's government, the first led by an Indo-Fijian, was deposed last year in a rebellion led by George Speight, a Fijian nationalist, who is now facing trial accused of treason. He won a seat in the general election, but will lose it if convicted.

Mr Qarase headed a caretaker government appointed by the armed forces after the rebellion. He blamed Mr Chaudhry for exacerbating tensions before the coup and claimed to have led a return to stability. His party had the blessing of the president of the local Methodist church, a powerful force in Fiji.

Hoping for a swift return to office, Mr Chaudhry appealed to Indo-Fijian voters for support in the name of *izzat* (honour). It was a call to political arms after the hardship and intimidation Indians have experienced over the past 16 months. He had the backing of several powerful Hindu religious organisations. Many people were expecting a clear victory for his Labour Party.

Mr Chaudhry has responded to his exclusion from the government by calling Mr Qarase a "racist" and a "dictator" who is "blatantly and openly defying the constitution". He intends to appeal to the courts. But in 1999, when Mr Chaudhry became prime minister, he did not accept in his cabinet members of a party with the largest share of ethnic-Fijian votes, and much more than 10% of the seats.

The creators of Fiji's constitution sought to encourage co-operation between ethnic-Fijian and Indo-Fijian members of parliament. But neither leader has so far shown much sign of the political goodwill that accompanies successful experiments in power-sharing.

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NGOs in Bangladesh

Helping or interfering?

Sep 13th 2001 | BRAHMANBARIA
From The Economist print edition

NGOs are coming under attack from traditionalists in Bangladesh

WHILE their husbands crouch over Korans in Islamic schools, 30 peasant mothers, many with babes in arms, recite English nursery rhymes. Until Proshika—a large Bangladeshi non-governmental organisation (NGO)—arrived in the bamboo village, they were illiterate. Now they are being trained as English teachers for Proshika's vast network of informal schools, contemplating attractive prospects such as a steady salary, a mobile phone and a four-by-four to be chauffeured to work in. For the Bangladeshi male bumping along in his rickshaw, it can all be very frustrating. "Why should they upset our social base?" laments Gholam Azzam, the founder of the country's main Islamic party, Jamaat Islami, who complains that 90% of the NGO small loans go to women.

Is such social engineering the NGO's job? Bangladesh's largest donor, the British government, thinks so. It is giving Proshika £23m ($33m). But increasingly Bangladeshis are asking whether the NGOs have grown too powerful. From their humble beginnings offering emergency relief, NGOs are now talking about social mobilisation and female empowerment. The largest have budgets to match that of the health ministry. BRAC (the Bangladesh Rural Advancement Committee), which began fighting the 1971 floods that threatened to drown the nascent state, now employs more people than any other NGO in the world. A suburb of Dhaka has been renamed "NGO city".

The more self-sufficient Bangladesh becomes, the larger the NGOs grow. Since the 1970s, the fertility rate has dropped from over six children per woman to two. The once-starving nation now has a 2m-tonne food surplus. The literacy rate has doubled. NGOs claim the credit.

Officially, primary education is compulsory. But most rural youths have no school to go to. NGOs—Islamic and western alike—compete to fill the vacuum. BRAC alone runs over 30,000 schools, while most mosques double as informal primary schools. Both types claim to raise the literacy rate, but in very different ways. Western NGOs make a point of helping girls, teach English, and coin a syllabus to appeal to their western, if not Christian, paymasters. The myriad of unlicensed *madrassas*—Islamic schools—are boys-only, teach Arabic and Urdu, the language of Pakistan, and, in deference to their donors, offer vocational training in building a state modelled on Saudi Arabian lines.

The rival approaches have only deepened Bangladesh's long-standing religious-secular rift. Aid workers talk nervously of creeping Afghanisation, and follow the authorities in blaming the Taliban for a lethal wave of bombings. In Brahmanbaria, a town famed for its 60 religious schools, Proshika called for a rally against fundamentalism. The local *madrassa* responded with a *jihad* and torched Proshika's offices. In this country of dazzling colour—from saris to rickshaw hoods—women in Brahmanbaria now carpet themselves in black from head to toe.

With a general election due on October 1st, the struggle is turning political. Some mullahs have formed their own all-male parties. NGOs like ASA, with support groups in 40,000 villages, are canvassing women to back the secular Awami League. "In a Muslim state," says Father Timm, ASA's American Jesuit president, "we've managed to ensure more rural women cast their vote than men." It is, he says, "a social revolution to combat the medievalism of the fundamentalists." And then, just in case it fails, he leads his students in a prayer that they will not meet a fate like that of the Christians jailed in Kabul.

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East Timor

After the vote, the constitution

Sep 13th 2001 | DILI
From The Economist print edition

A tricky path to independence

Get article background

Gusmao for president

AS EXPECTED, Fretilin won East Timor's election on August 30th. The formerly Marxist party bagged 55 of the 88 seats in the new constituent assembly. A vast victory by normal standards, but short of Fretilin's own forecast of many more seats and, importantly, of the 60 it needed to dictate the constitution.

However, Fretilin's draft constitution may not be totally doomed. The party's secretary-general, Mari Alkatiri, admits it needs revision. Fretilin drew up the document in 1998. Lawyers who have studied it say it is broadly based on that of Mozambique. For most of the Indonesian occupation of East Timor, Mr Alkatiri was in Mozambique with the formerly Marxist movement Frelimo. Fretilin can probably count on a few extra votes in the constituent assembly from other left-wing parties.

Fretilin has rejected the idea of a government of national unity. In any event East Timor's other two major parties look unlikely coalition partners with Fretilin. The Democratic Party came in second with seven seats and the Social Democratic Party joint third with six. Both accused Fretilin of widespread intimidation in the election campaign.

The United Nations administrator of East Timor, Sergio Vieira de Mello, will be putting pressure on the assembly to pass a constitution within 90 days. The UN will soon start to withdraw and the jobs done by its staff will be taken over by Timorese, who all sides admit are barely ready to cope. There is likely to be a presidential election next year, possibly just before independence is granted. A former guerrilla chief, Xanana Gusmao, is almost bound to win by a landslide.

Many hope Mr Gusmao will be a counter-balancing force to Fretilin. Despite his public denials, Mr Gusmao's relations with Fretilin are said to be frosty these days. He left the party in the late 1980s. Fretilin has nominated him for president but wants East Timor to have a system of government modelled on that of France, with a powerful prime minister. This would in theory give the president only limited control over internal affairs. But Mr Gusmao's charisma and popularity might mean the apportioning of power might not work out quite the way Fretilin had in mind.

Tens of thousands of East Timorese refugees still in camps in West Timor, which remains a part of Indonesia, will also be watching Fretilin's moves closely. Many are considering coming home. They have been encouraged by Mr Gusmao's talk of reconciliation but have fears of violence and of retribution. Back in 1975, when East Timor was briefly independent before being occupied by Indonesia, many of them were on opposite sides to Fretilin and still view it as communist. If they do not return in peace, the militiamen among them may pose a potent threat to the newly independent East Timor.

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Singapore

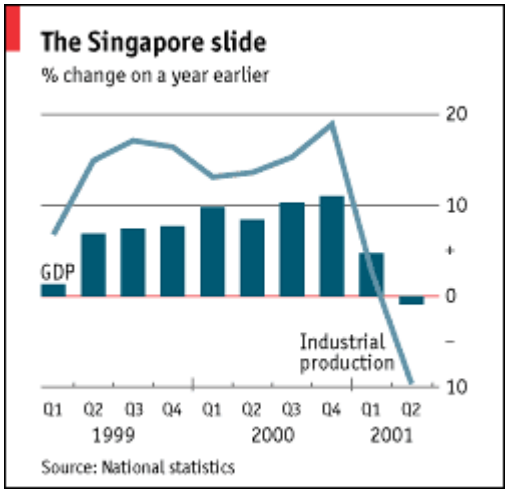
Death by a thousand cuts

Sep 13th 2001 | SINGAPORE
From The Economist print edition

The global downturn hits the city-state

FEW statistics catch the eye like sweeping job cuts by large companies. And in tiny, globalised Singapore, even distant announcements are being greeted these days with a shudder. When a multinational announces lay-offs in the tens of thousands, that may mean job losses of only hundreds in the city-state, but, as a regional base for many big companies, Singapore is now being tortured by a multitude of such small cuts.

Along with Japanese electronics giants such as Fujitsu and Hitachi, many big American technology companies are also including Singapore in their job-cutting plans. Maxtor, which makes disk drives, has already sacked 700 people in Singapore, and is considering more. National Semiconductor, which makes chips, has axed another 150. Agilent Technologies, which is cutting its payroll by 9% worldwide, employs 4,000 people in Singapore. Lucent Technologies, which is cutting its global workforce by a quarter, employs another 500 there. To these will be added local job cuts by Gateway, 3Com and others retrenching in the technology slump.



Foreign financial services firms are also cutting back. The merger of J.P. Morgan and Chase banks has already led to some 200 job losses in Singapore over the past year. More are said to be on the way, along with cuts by Merrill Lynch, Credit Suisse First Boston and Sumitomo Mitsui Bank.

These job losses loom large in a country of 4m people, and could by the end of the year jack the unemployment rate up to 4%—never mind all the Filipino engineers and other foreign workers who have been quietly shipped home over the past few months. Down will go domestic demand, probably draining even more shoppers from the already quiet stores in electronics malls such as the Funan Centre and along the Orchard Road. Singapore's GDP fell at an annual rate of 10.7% in the second quarter, and private economists expect the figure for 2001 as whole to show a contraction of over 2%.

With a parliamentary election due by next August, the government might be expected to be trumpeting a plan to get growth going again. But this is Singapore, where the opposition poses no electoral threat and where the government has its eye firmly fixed on long-term economic competitiveness. Since it is a global slowdown, especially in electronics, that is pushing Singapore into slump, Goh Chok Tong's government reckons there is little it can do to stave off the hard times.

Instead, it is actually pressing ahead with some long-term reforms that will increase the short-term pain. It is, for instance, cajoling local banks to merge, adding to the job losses. DBS recently laid off 160 people, many of them from POSBank, with which it merged in 1998. If United Overseas Bank completes its planned takeover of Overseas Union Bank, another 2,000 staff could lose their jobs.

The government is also taking a more muted approach to fiscal policy than some of its neighbours, especially Malaysia, which is ramping up spending. Last month Mr Goh announced modest measures to stimulate the economy by S$2.2 billion ($1.25 billion). Of the little of this destined for infrastructure, all will go on projects already planned or under way, such as land reclamation on Jurong Island and improvements to the light-rail system.

Might Mr Goh do anything else to bolster demand? Some pundits think that if the economy continues to deteriorate, the government may yet announce a second, larger, set of stimulative measures, as it did in 1998, when the economies around Singapore collapsed. But it is hard to envision obvious ways to spend that money. The government may be tempted instead to use its clout as the country's biggest investor. It still owns large stakes in most of Singapore's property, as well as in businesses such as the light-rail system. By urging those businesses to make temporary cuts in rents, fares and other fees, it could provide a fillip to the economy. But such interference would clash with its stated longer-term aim, of turning those enterprises into fully-fledged private firms.

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Zimbabwe

The pressure builds

Sep 13th 2001 | HARARE
From The Economist print edition

But Robert Mugabe, unyielding, goes his own way

Get article background

THIS has been a humiliating week for Robert Mugabe. His government has come under unprecedented criticism from other countries, first at the Commonwealth talks in Abuja, Nigeria's capital, and then at a special southern African summit in his own capital, Harare. As if that were not enough, his party, ZANU-PF, got a stinging slap on the face in the Bulawayo municipal elections, losing the post of mayor and all eight council seats to the opposition Movement for Democratic Change (MDC), despite its best vote-rigging efforts.

In Abuja, on September 6th and 7th, the foreign ministers of seven Commonwealth countries sat in judgment on Zimbabwe. Mr Mugabe—on a ten-day "working holiday" in Libya, where his old friend Muammar Qaddafi had a welcome cheque for him—left his staff to make his case. Zimbabwe's foreign minister, Stan Mudenge, told the meeting that his country's problems boiled down to the need for land reform. Ministers from Australia, Britain, Canada, Jamaica, Kenya, Nigeria and South Africa begged to disagree. While acknowledging that land reform is needed in Zimbabwe, they told him unanimously that the trouble also stemmed from state-sponsored political violence, contempt for human rights, economic decline and the subversion of democracy.

Hard on the heels of the Abuja meeting, Mr Mugabe found himself obliged to attend an extraordinary two-day summit with the leaders of five neighbouring countries, all members of the Southern African Development Community (SADC), in Harare. He had not asked them to come. They had insisted on inviting themselves, and on raising the same disagreeable subject that had been broached in Abuja: the effect of Zimbabwe's disorder on their own struggling economies. The summit opened with Bakili Muluzi, Malawi's president and SADC's chairman, politely telling Mr Mugabe that the neighbours only wished to help, and then blaming him directly for Zimbabwe's economic collapse and the spreading violence there. South Africa already faces constant difficulties from the stream of Zimbabweans pouring across the border in search of work.

SADC had also ordered meetings with members of Zimbabwe's opposition parties and white farmers, though many were forbidden to speak. At the close of the meeting Mr Mugabe's self-styled "war veterans", finding themselves in the same room as many of their opponents, applauded and cheered anything that redounded to Mr Mugabe's credit. There was not much of it. Slumped in his chair, lips pursed, the president could not have looked more sulky if he had tried.

Between them, the two summits came up with some formalised ideas to make Mr Mugabe behave. In Abuja, the British government pledged money—reported to be £36m ($53m)—for land reform, if Zimbabwe would carry out the redistribution legally and peacefully and make macroeconomic reforms. No particular body will check on this, but a ministerial "action group" will meet on the eve of the Commonwealth heads-of-government meeting in Brisbane in October to consider whether Mr Mugabe has fulfilled his end of the bargain, and what to do if he has not. At the Harare meeting, a regional task-force was set up to meet every few weeks to monitor events in Zimbabwe. Mr Muluzi said he had had every assurance from Mr Mugabe: his government would follow the rule of law.

And pigs might fly. Mr Mugabe is still prevaricating over the Abuja agreement, saying he needs the

approval of his party's politburo and his cabinet, neither of which has met yet. In fact, even if it cared to try, Zimbabwe's government would find it hard to carry out the macroeconomic reforms that Britain insists on. Meanwhile, the seizure of white farms has carried on as usual, as invaders moved in unrestrained by police and the "war veterans" who lead the takeovers vowed to continue their "peaceful demonstrations" for "as long as there is no justice". It is clear that Mr Mugabe's idea of legal land redistribution is exactly what he has been inflicting on the country for the past 18 months.

Yet, try as he may, Mr Mugabe cannot dismiss the new pressure on him merely as the vengeful work of former colonial powers or the machinations of western capitalists. It is African anger he faces now. Within Zimbabwe too there is a firm resolve among the opposition parties to resist Mr Mugabe's rule. The voters of Bulawayo, admittedly an opposition stronghold, showed their firm rejection of ZANU-PF, despite the cash handed out freely, violence, intimidation and evidence of large-scale voting fraud. The MDC candidate for mayor, for example, won around 61,000 votes; his ZANU-PF rival, around 12,000.

The Brisbane meeting should see continued pressure on Mr Mugabe to meet minimum standards for a free and fair presidential election, which must be held by April. But he has not met those standards for several years, if ever, and on the evidence of this week's events he has little intention of adopting them now.

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Syria

Autumn in Damascus

Sep 13th 2001 | DAMASCUS
From The Economist print edition

A crackdown stifles hope of reform

CYNICS in Syria delight in spotting chinks of light in their government's efforts to smother dissent. Not so long ago, they note, the Baathist regime abducted its critics in secret, tortured them and imprisoned them without trial. It must now be considered a sign of progress that, when eight leading dissidents were arrested recently, the government openly announced their detention, is treating them nicely, and says it will punish them according to the law.

None of this, of course, is much comfort to the arrested men. They include two outspoken parliamentarians, five prominent intellectuals, and Riad Turk, a 71-year-old Communist leader who was released from prison only in 1998 after spending 17 years in a cramped underground cell. All are guilty of taking part in the broad-based movement for reform that began to coalesce after the death last year of Syria's long-ruling strongman, Hafez Assad, and the installation of his 35-year-old son Bashar as ruler.

At first, the informal movement was encouraged by the new leader's policies. The younger Assad, an apparently mild and enlightened man with an interest in the Internet, released hundreds of political prisoners and took steps to encourage private investment. He also turned a blind eye to the increasingly vocal criticism of the Baath Party, which has monopolised power since 1963. Since the party in effect controls most institutions, including the universities and the press, private meetings were the sole outlet for this outpouring of grievances. By last winter, however, salons for political debate had proliferated across the country. Speakers were demanding not just pluralism and democracy but accountability for what is perceived as rampant official corruption.

With the Palestinian *intifada* raising regional tensions, and with the Baathist old guard fearful of losing its privileges, pressure mounted on Mr Assad to put the brakes on political change. The president declared his displeasure obliquely, saying that economic reform should take precedence over politics. Other officials muttered about "red lines" that must be respected, meaning there would be no tolerance of questions about the legitimacy of the regime. By last spring the state had issued ordinances forbidding most of the salons, which had come to be known as civic forums.

The groups largely complied, although individual voices continued to call for greater freedom. Earlier this month, however, Riad Seif, a maverick independent legislator in Syria's parliament, mounted a direct challenge to the rules. Some 200 people gathered at his National Dialogue Club, a group that held its meetings in a cramped apartment in the Damascus suburbs. Dozens of speakers lashed out at the government, but also listened politely as several Baathist intellectuals defended their party's record.

Such impudence was intended as a test, so it was no surprise to either Mr Seif or to five of his more vocal guests when the secret police rounded them up over the next week. Nor was it a shock to Syrians at large. Not only are the country's 17m citizens inured to being roughly ruled, but most are far too preoccupied with making ends meet, or with securing the kind of useful connections in government that are a prerequisite for success in business, to pay much heed to calls for political reform. In their lives, it is a luxury.

The government is probably right to conclude that it has little reason to fear mass political protest. Yet its stumbling, piecemeal efforts have so far failed to produce much improvement in the economy either. Population growth has outstripped GDP growth since 1997. Unemployment is estimated at 20% and rising. Foreign investment has been paltry, which is not surprising considering Syria's stone-age banking system and feeble infrastructure.

So long as the conviction remains that economic and political reform can be uncoupled, the economy will

continue to be handicapped by pervasive cronyism, stifling bureaucracy and inept management. Instead of shutting up the critics, Mr Assad would be wiser to employ them. Syria needs all the talent it can get for the Herculean task of dislodging the real obstacles to its revival, both economic and political.

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World development

Now, think small

Sep 13th 2001 | CAPE TOWN
From The Economist print edition

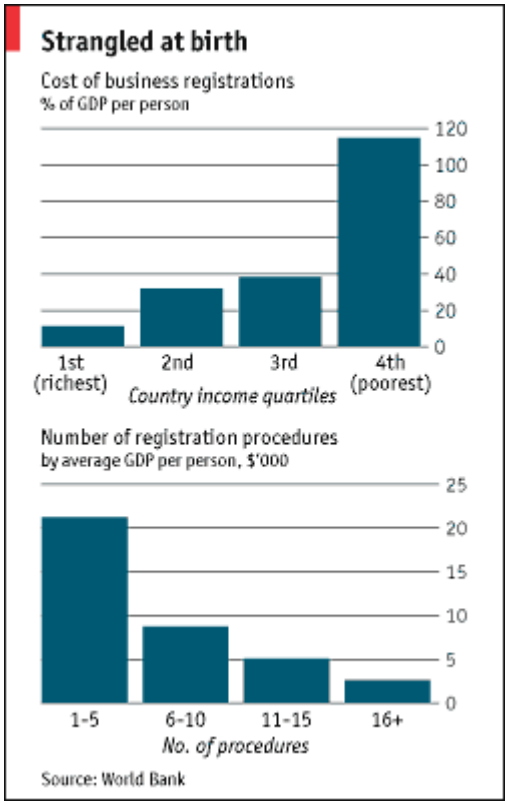
Poor countries could help themselves get richer by fixing their institutions

ILLEGAL money-traders bustle on the streets of Myanmar, one of Asia's poorest and most authoritarian countries. Taxi-drivers and diamond-dealers tout for business and curio-sellers walk the beaches of Sierra Leone, in west Africa, despite a decade of war and general collapse. Proudly communist Vietnam thrives with young capitalist entrepreneurs. However destitute a country may be, some form of market activity seems to survive. But can the poorest find a way to turn that activity into useful growth?

Yes, with some help, said the World Bank this week. Its annual *World Development Report*, which this year looks at the way governments can encourage successful markets, suggests that when poor people are allowed access to the institutions richer people enjoy, they can thrive and help themselves. A great deal of poverty, in other words, may be easily avoidable.

The study, which gathered existing research and added a survey of around 100 countries, found that economies that allowed open flows of information to as many people as possible (with free, competitive media), good protection for the property rights of the poor (especially over land and the efficient collection of loans) and broad access to judicial systems (even for illiterate peasants or people who cannot pay high legal fees) were most likely to be competitive, and to develop.

Efficient formal and informal institutions, in other words, are crucial for turning subsistence farmers, petty traders and other would-be money-makers into a boon for the general economy. If it is too expensive and time-consuming, for example, to open a bank account, the poor will stuff their savings under the mattress. When it takes 19 steps, five months and more than the average person's annual income to register a new business in Mozambique, it is no wonder that aspiring, cash-strapped entrepreneurs do not bother. In general, poorer countries charge far more, relative to income, than rich ones to register new businesses. They also demand that applicants jump through more bureaucratic hoops, and so increase the opportunities for corruption (see charts). All this stifles growth.



Since the poor economies that are growing faster are the ones with good institutions, says Roumeen Islam, overseer of the report, other countries must follow suit. But which institutions are best in these conditions? Simple and accessible ones, is the answer, which do not intimidate the poor. Zambia and the Gambia both set up local stock exchanges in the early 1990s, only to find they drew almost no business. They would have done better to consider less ambitious schemes, such as the small-claims courts set up in Tanzania—where the average court case has been speeded up from 22 months to three—or the micro-credit banks, lending small sums on minimal security, set up in Bangladesh, South Africa and Bolivia.

The World Bank report sees such small institutions as particularly useful in places—Vietnam, Peru and Ethiopia, among others—where farmers and the urban poor are unsure of their legal rights to their land or homes. Granting formal property titles is essential in the long run, to allow people to raise loans and trade their property. But until other institutions are developed, the poorest are unlikely to use those formal titles.

Has the World Bank hit on something new? Not if you ask development economists such as Peru's Hernando de Soto. Ever since he found that his government demanded over 700 bureaucratic steps to obtain legal title to a house, Mr de Soto has argued that growth follows respect for the property rights of the poor. He may wonder why the World Bank feels the need to make the point again. But modest suggestions of this sort may be easier for some to accept than grander World Bank prescriptions. And it is heartening to find the Bank admitting that big institutions, imposed by foreign donors in the belief that one size fits all, can sometimes do more harm than good. Now, what about following the fine words with a little practical help?

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Nigeria

The roots of violence

Sep 13th 2001 | LAGOS
From The Economist print edition

They are not ethnic, nor are they religious

SINCE Nigeria returned to civilian rule in May 1999, over 6,000 people have died in short, sudden, horrifying outbursts of communal violence. Last week, up to 500 people were killed and over 900 wounded in the pleasant and usually sleepy city of Jos, in the centre of the country. A “clash between Christians and Muslims” was the reason generally offered—as if that explained why scores of men should pick up axes, clubs and machetes and try to slaughter each other. In June and July more than 200 people died in Nasarawa state. The explanation in that case? “Rival ethnic groups.”

Shockingly little attention is paid to these deaths. The world’s press largely ignores them, and even inside Nigeria they have almost no political impact. Many observers, both inside and outside the country, dismiss this sort of violence as simply “tribal” or “religious”. No further explanation is sought, as if the clashes were the inevitable expression of inexplicable primeval urges. They are not.

Nigeria’s return to supposedly democratic politics means that its politicians—unlike its previous military rulers—have to gain some popular support in order to stay in power. Money is one tool; another is to play an ethnic or religious card, seeking to stir up jealousy between groups. In a country of some 120m people, split into more than 200 ethnic and language groups and divided between Muslims, Christians and animists, the scope for such mischief is huge. In the past two years most communal clashes have been related either to disputes over land or to “identity” politics, where one set of people feels put upon, threatened or insulted by another.

But other factors bring Nigerians together rather than separate them. Since the bloody Biafran war in the late 1960s, Nigeria’s disparate ethnic groups have grown more, rather than less, economically interdependent. More country folk have moved to towns, where they have learned cosmopolitan habits and grown accustomed to rubbing along with people from other groups. Community-based initiatives aimed at building peace operate in many places. Many fail, but some are effective. One, run by a pastor and an imam who once tried to kill each other but have since become friends, has calmed a little the troubled city of Kaduna. Nigeria remains fragile, but most Nigerians believe that it is not about to break up now.

President Olusegun Obasanjo, a Yoruba Christian from southern Nigeria who has nonetheless won the trust of many northern Muslims, certainly thinks that way. He believes, moreover, that the violence is caused partly by bad government. He is right. According to J.F. de Ajayi, a Nigerian historian, Nigerians feel no connection to their leaders. When Britain, the colonial power, left Nigeria, it handed authority not to traditional rulers, who were viewed as having some legitimacy, but to doctors, lawyers and the horde of literate hustlers who did well in the British bureaucracy and the British army and now make up Nigeria’s ruling class.

Since independence in 1960, the country has been looted by venal generals or misruled by equally crooked civilians. Few politicians have shown much interest in the problems of ordinary people. Rather, they have seen political office as a route to riches, and have stopped at little to win power or hold on to it. If government is about dividing up public funds and favours along tribal lines, then more for another

tribe means less for one's own. Politics thus poisons inter-ethnic relations in much of Nigeria.

Speaking on state-run radio last weekend, Mr Obasanjo called the slaughter in Jos a "disgrace" and called for calm. He then promised to make Nigeria safer. He has a five-year plan for reforming the police, who shoot too many innocent people and release too many guilty ones in return for bribes. Second, and more important, he wants to reform the way Nigeria is governed. His ambition, he said, was to "control crime, eliminate corruption, enhance general development, progress, growth and improve the welfare, well-being and quality of life of every citizen." All splendid aims; but sceptics wonder if Mr Obasanjo has what it takes to achieve them, and to end the cycle of political corruption that feeds directly into bloodshed.

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The European Union's security

Wake up, Europe!

Sep 13th 2001 | BRUSSELS
From The Economist print edition

The European Union is still far from taking on its own security. But the attacks on New York and Washington may force Europe to get more serious

Get article background

THOUGH the United States will have welcomed the solidarity of its European allies this week—NATO invoked Article 5 for the first time, reminding the world that it considers an attack on one member an attack on all—the Europeans were nonetheless conscious that in military matters they still rely on America. That is true even in places that matter above all to Europe.

In recent weeks two issues in particular have been worrying the people who handle Europe's security: the Middle East and Macedonia. Speaking just a few hours before the attacks on New York and Washington, a senior European Union official said that EU policymakers were in "despair at the lack of American engagement" in the Israeli-Palestinian crisis.

In the past some Europeans, particularly the French, have clearly resented the fact that America invariably takes the lead in the Middle East. In recent months Javier Solana, the EU's foreign-policy chief, has played an increasingly conspicuous role there. But, while keen for the EU to play a bigger part, he is also more and more anxious for America to reassert its interest in trying to solve the problem. The Europeans are under no illusion that they could deal with the Middle East on their own.

In Macedonia, the other big security puzzle on European minds, the past week has also illustrated the EU's continuing desire for American involvement. At a meeting on September 9th, the Union's 15 foreign ministers called for peacekeepers to stay in Macedonia after NATO's mandate to collect ethnic-Albanian rebels' arms runs out on September 26th (see article). François Léotard, a former French defence minister and the EU's outgoing envoy to Macedonia, had earlier suggested that the new operation could be an exclusively European one—the first outing for the EU's nascent rapid-reaction force. But the EU's foreign ministers, France to the fore, were united in dismissing the idea as premature, for all their usual talk of an independent foreign and security policy for Europe. They deemed America's continuing involvement, through NATO, vital.

Indeed, if anyone, it was the Americans who seemed to be urging the EU to lead a follow-up operation in Macedonia. On September 10th a State Department spokesman sounded wary of a new NATO operation there. "We believe that an EU security mission is appropriate," he said. Behind the scenes diplomats were scrambling for a formula that could allow NATO to offer armed backing of some sort for civilian monitors from the EU and from the Organisation for Security and Co-operation in Europe. At the same time they

were hoping for a covering declaration from the United Nations to reassure those, Germany among them, who were anxious for some sort of UN blessing.

Faced with the prospect of going it mostly alone in Macedonia, the Europeans know how much they still need the Americans. It is not American troops that Europeans want. The current NATO-led force is already almost entirely European: nearly half the troops are British, backed up by contingents from 13 other countries. Only one American is serving in Macedonia's NATO force—a press officer. But American logistical support supplied via a NATO base in Macedonia, notably in transport and intelligence-gathering, is still crucial.

Over the next year the EU hopes to become capable of running security operations on its own. Its officials say that if the Macedonia problem had cropped up in a year's time, a peacekeeping force might indeed have been deployed under an EU flag. But to run its own operations, the EU will need "assured access" to NATO facilities. The United States is happy to allow that, but Turkey, a member of NATO though not of the EU, is not—because its old foe, Greece, would be part of an EU military arm. If this disagreement cannot be overcome, the EU will find it hard to create its own force. The Union would then either have to accept that access to NATO facilities could be granted only case by case, which would in effect let the Turks veto all EU security operations; or EU countries would have to spend far more on defence to build up their own capability.

Support for the creation of some sort of EU military force has helped halt the decade-long slide in European defence spending—though actually reversing it seems out of the question just now. Even rich Germany, the chief beneficiary of NATO's protection throughout the cold war, now spends no more than 1.5% of GDP on defence, which some NATO officials privately describe as the "free-loader threshold".

But all security assumptions, on both sides of the Atlantic, will be recalculated in the light of the attacks in New York and Washington. The United States may be tempted to concentrate more narrowly on direct threats to itself and to reduce its involvement in areas such as the Balkans that seem more peripheral. Writing before the suicide attacks on the United States, Kori Schake, a pundit at the National Defence University in Washington, pointed out that many of the NATO assets the EU may want to use are in fact American ones that are "very expensive and scarce even in US forces". Ms Schake went on to argue that "the EU is unlikely to be able to rely on guarantees of availability for European crisis management of assets that the US also needs for fighting wars and managing crises globally."

This may become plainer as the United States begins to scrutinise its security priorities in the wake of the terror attacks. The EU, for its part, may be shocked out of its complacent assumption that America will always be there and that spending on security is a luxury. Both considerations mean that Europeans will have to get a lot more serious about defence.

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Macedonia

No outside police? No peace

Sep 13th 2001 | SKOPJE
From The Economist print edition

Violence will surely break out again if no outside force stays to prevent it

Get article background

Boskovski, the hard men's boss

NATO now has over half the 3,200 rebel weapons it hopes to collect in Macedonia. But that includes few serious items: ground-to-air missiles, rocket- and grenade-launchers, snipers' rifles. The rebels have buried many others, NATO suspects. And its vows of pulling out after 30 days are fading.

Meanwhile, the violence of Slav-Macedonian paramilitaries linked to the interior minister, Ljube Boskovski, is making many ethnic Albanians question the assurances given when they agreed to disarm. Slav-Macedonian civilians and police reservists have not had to hand in the 10,000 or so Kalashnikovs that Mr Boskovski and his friends gave out in the spring, when fighting was at its heaviest.

His ministry's legitimate anti-terrorist police, the Tigers, are recruiting hard. But only 10% of those drawn by its colourful advertising are accepted. The rest go off to join the Lions or other dubious groups, earning a red beret, a uniform, and all but carte blanche to attack, harass or kidnap ethnic Albanians. Last week British paratroopers had to save a senior ethnic-Albanian policeman from a Lions gang.

The Lions' claws reach further than that. In provincial towns they and those like them are extorting money from businesses, buying off local police and other officials, and chasing out of town those who might support President Boris Trajkovski and others trying to build peace. When NATO goes home, it is suspected, Mr Boskovski will strike against ethnic Albanians and moderates in his own community alike.

Just how is not clear. But his first aim seems to be to take control, by whatever nasty means, of the political apparatus. NATO and the EU have arm-twisted the Slav-Macedonian VMRO party into debating, and in principle ratifying, constitutional amendments to give the Albanians wider rights. Mr Boskovski and the VMRO hardliners want the blame dumped firmly on Mr Trajkovski, rallying Slav-Macedonian support behind themselves and the equally hardline prime minister, Ljubco Georgievski.

The president and his not-too-anti-western advisers see which way the wind is blowing. Not only have they to sell to their fellow Slavs the idea of concessions to the ethnic Albanians, but they have to protect themselves too. They need some outside force to stay when NATO's 3,500 men have gone. So does the Organisation for Security and Co-operation in Europe, which includes the Macedonians' allies, Russia and Ukraine, and is meant to help monitor the ceasefire. Not that its officials much fancy monitoring wide areas aided by a force maybe only 1,500 strong.

If it had a UN mandate, Mr Trajkovski would accept a force of NATO troops. VMRO moderates could sell this idea to their supporters by saying that Russian, Polish and Ukrainian troops too would join it, displacing the much-disliked British, who are seen as too effective and forceful. But any peace will be artificial. Having created a politically modified Macedonia, the West is going to have to police it—or leave it to fresh violence, not just between the two main communities, maybe, but between the moderates and hardliners of the Slavic one.

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Belarus's election

The nostalgic opposition

Sep 13th 2001 | NAVAHRUDAK
From The Economist print edition

Belarussian history links a dismal present to a more encouraging past

THERE are few better antidotes to despair in Eastern Europe than an old town soaked with good ideas from long ago. Even in the darkest years of communist rule, Czechs, Poles, Balts and others could take comfort from the visible signs of happier days. That is much harder for the 10m people of Belarus, who face five more years of stagnation and autocracy under their newly re-elected president, Alexander Lukashenka. On September 9th he claimed an implausible 76% of the vote in a presidential election that western observers say fell well short of international standards of fairness.

Compared with its western neighbours, Belarus often seems a featureless country, both aesthetically and in national character. What two world wars did not destroy was mostly rounded off by Soviet planners and russifiers. Belarus managed barely nine months of independent statehood in 1918—too short to sustain the patriotic zing that helped other East Europeans to shake off Communist rule.

History helps answer two depressing questions. First, why do so many Belarussians—perhaps more than half of them—genuinely think that an autocratic regime based on a bullying personality cult is so fine? After all, even allowing for the election's unfairness, a lot of Belarussians plainly do like Mr Lukashenka. Second, why are the disgruntled rest, who broadly oppose his style of rule, unable to do anything about it? Even in a fair election Vladimir Goncharik, the main opposition candidate, who was officially credited with 15% of the vote, would probably have fared less than brilliantly. Opposition demonstrations against the election-rigging have already fizzled out.

Travel around a bit, and answers emerge. For a start, the third of the country that used to be part of Poland (see map) has at least a dim recollection of a fairer and more prosperous life. "Those were the good times," says a crone selling apples on polling day outside the 15th-century Mir Castle, one of the country's few surviving historic buildings, 95km (60 miles) west of Minsk. Unprompted, she starts reciting a liturgy in creaky, heavily accented Polish. Western Belarussians are more likely to look west for democratic inspiration.

In contrast, it was typical that the man probably best able to oppose or expose the ballot-rigging, Russia's top election official and observer-in-chief, Alexander Veshnyakov, was enjoying a leisurely, liquid snack with local nabobs inside the castle, well away from the flimsy, easily-stuffed ballot boxes and official intimidation that blighted the election. Sure enough, his team of observers said they found nothing to worry about.

Patriotic Belarussians have little reason to like the 20-odd years of Polish rule in the west of their patch before the second world war, even though the eastern chunk, under Soviet rule, fared incomparably worse. Bitter memories of forced polonisation have faded, though: now the Poles are useful allies in the broad democratic coalition that Mr Lukashenka defeated. In the north-western town of Grodno, for example, the strongest element of the opposition is the Union of Poles. Denying the official charge that it encourages separatism, it demands more Belarussian and less Russian in schools.

Really comforting memories, though, mean going back not decades but centuries. Travel another 50km westwards from Mir,

and you come to Navahrudak, a town which for symbolic importance in Belarus is something like Shakespeare's Stratford and Magna Carta's Runnymede combined. A mere 700-odd years ago, it was the capital of the Grand Duchy of Lithuania and Rus, its Slav-speaking chunk. Later, when the grand dukes moved to Vilnius, capital of present-day Lithuania, the court at Navahrudak had a Europe-wide reputation for fairness. The grand dukes compare well with the current rulers of Belarus on matters such as religious tolerance and the rule of law. At its peak, the country was a superpower stretching from the Baltic down to the Black Sea. It can be argued that its official language was indeed an archaic form of contemporary Belarussian. A popular opposition calendar features the greatest grand duke, Vitaut, who reigned from 1392 to 1430.

But there is a more modern source of inspiration in Navahrudak too: as the home of Adam Mickiewicz (1798-1855), a poet who embodies the values of the Enlightenment—freedom, reason, supranationality. "A symbol of everything good that we want," says Tatiana Tsaryuk, a local Belarussian opposition campaigner. Using Mickiewicz as a symbol of Belarussian patriotism is a bit of a stretch: he wrote in Polish, though one of his most famous works (confusingly) begins "Lithuania, my fatherland", and the Poles consider him their own national poet. It is a fair bet that most Belarussians are only dimly aware of him, even less so of Belarus's distant but glorious past when it was part of Lithuania. Official propaganda still overwhelmingly stresses history's Soviet version: Belarus as a grateful partner of big brotherly Russia.

Most Belarussians in opposition hope that, as the economy declines and the docile Soviet-minded generation dies off, people may start thinking differently, not just about politics and history. But some fear that a few more years of Mr Lukashenka will see Russia gobble their country up. That, they recall, was roughly what happened to the remains of the grand duchy. And Mickiewicz died in exile.

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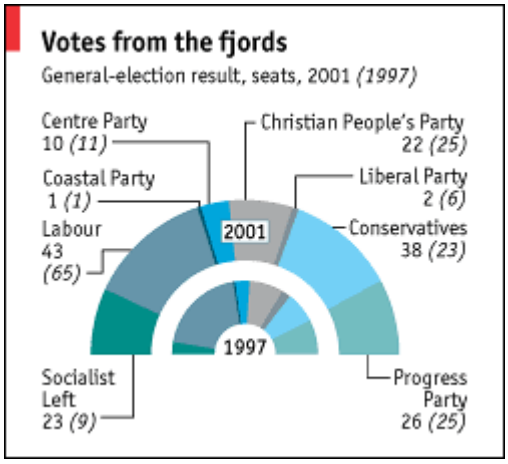
Norway's election

Labour wins but loses

Sep 13th 2001 | OSLO
From The Economist print edition

The right may form the next Norwegian government



THE Norwegians have sent a nervous shudder down the spines of Scandinavia's social democrats, who have ruled their respective roosts, with only occasional and brief hiccups, for the past 70 years. In fact, Norway's ruling Labour Party, as the country's social democrats are called, still won the general election on September 10th. But they drooped spectacularly, from 35% four years ago to 24%; four decades ago they got nearly half of all the votes. It will take a while for a new government to be formed, but there is a fair chance that a clutch of right-wing parties, perhaps led by the Conservatives, who got 21%, will take office.

Despite his setback, Jens Stoltenberg, Norway's clever prime minister, who has led a minority government since last year, has refused to resign—yet. The voters, he rightly points out, have not spelt out their alternative. Indeed, Norwegians gave no fewer than five parties each more than 12% of the vote and enabled eight in all to take seats in parliament. "Norwegian voters are like chickens without a head, rushing from one party to another in the hope of a miracle," says a pundit.

They certainly veered to both left and right. The tally of the Socialist Left, the nearest thing in Norway to a communist party, doubled from 6% to 12%. It wants to spend a lot more of the country's vast revenues from oil and gas on sprucing up hospitals, schools and the country's already generous welfare state. By contrast, the Conservatives, led by Jan Petersen, a rather grey foreign-policy analyst, saw their score shoot up from 14% to 21%, with their calls for drastic tax cuts plainly striking a chord.

This time the ticklish issue of whether Norway should join the European Union, which split the country down the middle in referendums in 1972 and 1994—both resulting in narrow No votes—played little part in the campaign. The virulently anti-EU Centre Party saw its support slump by a third, to 6%.

When parliament comes back in October, the Labour government may be replaced by a coalition of Conservatives, Christian Democrats and Liberals. Either Mr Petersen or the Christian Democrats' Kjell Magne Bondevik, who was prime minister from 1997 until he bowed out last year after taking time off for depression, will probably run the show.

But it might not be plain sailing for a coalition crew on the right. Such a government would still need at least the occasional support of the right-wing populist Progressives, led by a veteran maverick, Carl I. Hagen. He matches the Conservatives with his calls for lower taxes and the Left Socialists with his demand that oil money should be spent on welfare, especially on pensioners. Mr Bondevik, however, would be loth to depend on the controversial Mr Hagen.

Whoever takes office, do not expect Norway to change dramatically. Consensus will almost certainly reign as usual. The country is still awash with oil money. Though all governments, for fear of inflation, have kept much of the cash in a special pot, known as the Petroleum Fund, for the day when the oil runs out, many Norwegians now think that more of it should be spent on their dowdier schools, understaffed hospitals and run-down services for the old. A particular reason for Labour's decline was that instead of spending the oil money and cutting taxes, Mr Stoltenberg was trying to revamp the public sector—and promptly lost the backing of the powerful state-sector trade unions.

This inconclusive election result may, oddly, give many Norwegians what they want: a weak government in thrall to an obstreperous and perhaps more populist legislature which may insist that more of the oil money should be dished out. Meanwhile, the social democrats' still-ruling counterparts in Denmark and Sweden will nervously wonder what lessons they can draw. The Danish lot, under the prime minister, Poul Nyrup Rasmussen, are flagging in the polls and face a general election by next March. The Swedish party, under Goran Persson, is better liked, but must face the voters' verdict within a year.

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France's Greens

Blushing pink

Sep 13th 2001 | PARIS
From The Economist print edition

The Greens' presidential candidate is already proving a liability

TRUST the Greens, supposedly a responsible part of France's Socialist-led coalition government, to upset their own apple-cart. Alain Lipietz, their official candidate for next spring's presidential election, was having to explain himself to a special meeting of the party's executive council this week. Why had he, according to *Le Monde*, helped the Front for the Liberation of the Corsican Nation, a broad church attended by moderates and extremists alike, devise an economic plan to help the violence-prone island gain independence from France? And why had he appeared at meetings with ETA, the Basque-separatist terrorist group?

He should've piped down

Why indeed? Mr Lipietz says the main accusation, which refers to 1989, is a plot by a party "cabal" using "below-the-belt tactics" to press for his withdrawal as the party's presidential candidate. He may be right. He denies any role as the Corsican separatists' adviser, arguing that their economic plan was simply "inspired" by his published works. Moreover, his friends point out, the Socialist-government of the day had itself been in official discussion with members of the Front.

In which case, why is the "cabal" so keen to get rid of him? One reason is perhaps personal jealousy. When the Greens in June held American-style primaries to select their candidate, they were expected to nominate Noël Mamère, an MP from the Gironde. Instead, they chose Mr Lipietz, a member of the European Parliament who is a former Maoist as well as a graduate of the Polytechnique, the grandest of the Grandes Ecoles that train so many members of France's elite.

But a more respectable reason for Mr Lipietz's possible demise is that he could lead the party to electoral extinction. Few voters are impressed by his call last month for an amnesty for Corsica's extremists. Moreover, in a poll published at the weekend, he was easily the least "credible" of the candidates (all no-hopers) advocating environmental policies. As Mr Mamère puts it, since his selection Mr Lipietz has been "doing us more harm than good".

Is Lionel Jospin, France's prime minister and the as-yet-undeclared presidential candidate of the Socialist Party, perturbed at the disarray among his Green friends? Probably not. After all, if Green voters shun Mr Lipietz next April, in the first round of the election, they are as likely as not to throw their support behind Mr Jospin, so boosting his chances in the second round.

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Spain and its Basques

Which way ahead?

Sep 13th 2001 | VITORIA
From The Economist print edition

The central government and the Basque one dispute how best to fight terrorism

Our flag, for ourselves

"WE HAVE a breathing-space: either we negotiate our way forward, or things will go backwards." That, in brief, is the view of Juan Jose Ibarretxe, premier of Spain's troubled Basque region. But he does not mean negotiating with the ETA terrorists who want to shoot the region's way to independence; he means talking about wider self-government for it with Spain's conservative prime minister, Jose Maria Aznar, who believes that, given full co-operation between centre and region, tough police and court action on its own can crush the gunmen. Is either man right?

Recent police successes argue, in the short run, for Mr Aznar. Alone or in coalition, the non-violent Basque Nationalist Party (PNV) to which Mr Ibarretxe belongs, has run the region ever since it got a government of its own in 1980. The centre has long suspected these PNV governments, and their regional police, of being (at best) half-hearted in pursuing ETA; and the more so when, in 1998-99, during a 14-month ETA ceasefire, the PNV took the gunmen's political arm as its coalition partner. The ceasefire soon collapsed. So did the coalition. But not so Mr Aznar's deep suspicions. When, belatedly, he met Mr Ibarretxe after the PNV had triumphed in a fresh regional election last May, he read the Basque premier a sharp lesson on the need for real vigour against ETA. So far it seems to be working.

Within days the two governments' interior ministers met, and within weeks significant arrests began. On August 22nd the regional police seized eight alleged ETA members, 160 kilos of explosives and a small armoury of weapons in the Basque province of Guipuzcoa, where ETA had committed a dozen big attacks and as many murders since its ceasefire ended. Two days later national police made six arrests and seized a further 275 kilos of explosives in Catalonia, far off but it too the scene of several ETA killings. These, it is claimed, were major blows to ETA. More arrests followed last week in Vitoria, seat of the Basque government, though perhaps of lesser fry.

There is probably more to come, since quantities of documents too have been seized, including, it is said, lists of potential victims. The regional police and the national forces (more than one is involved) in the past were pretty dubious of each other. Now, say politicians at both levels, they are working better together. It is mere "slander" to claim anything else, says Mr Ibarretxe, who readily repeats what he said when he took office again, that the defeat of terrorism is his first task.

So ETA—for all that it can still hit back, as it did with a car-bomb at Madrid airport last month—is on its last legs, is it? The interior minister, Mariano Rajoy, has said almost that. He is probably wrong.

The reason is twofold. One is that ETA's political aims—which, at the extreme, mean an independent Basque state, including some Basqueish bits of France—are widely shared. True, the region largely governs (and taxes and polices) itself, as never before in its history. Its language is not suppressed. Indeed, it is ever more widely used and taught. So who needs independence? The answer, from the premier down to the man in the Bilbao metro, is what you might find in Scotland: we want to decide our future for ourselves. In May 43% of those Basques who voted backed a PNV-led coalition. Even though ETA had returned to killing, another 10% voted for the gunmen's friends.

One cannot just add those figures to show how a referendum on independence would go. Many PNV voters might vote to stay in Spain. Even among these, say opinion polls, most feel both Basque and

Spanish; only a third feel Basque alone. But the vote for secession would certainly be large. At the extreme, that sort of feeling, frustrated, is likely to go on breeding recruits to make up ETA's losses. And only a minority of its supporters favour a fresh truce.

The other reason for fearing that ETA will endure is that Mao, when he described guerrillas as fish swimming in the sea of passive support, was not quite right: for the gunmen of the Basque region, a small pond of support is enough. The city of Vitoria shows how.

This is the seat of Basque government, but also the capital of Alava, the least Basque of the region's three provinces. Mr Aznar's thoroughly Spanish People's Party (PP) runs the city. The main square is the Plaza de España, dominated by a sign saying "ETA no" in Spanish and in Basque. Name and slogan alike suit most Vitorians. Yet close by, in the old city, stands a small building plastered with pro-ETA slogans. It has a beaten-up look—which is exactly what it was when its youthful occupants recently came to blows with the local police, were raided, and carted off. And what a glorious hoo-ha the ultra-nationalist press made of the affair.

Last weekend the boot was on the other foot. Down in Mondragon, famous as the heartland of the Basque region's culture of industrial co-operatives, a balaclava-helmeted crowd bombarded the police station with Molotov cocktails. And over in San Sebastian a couple of tourist agencies were set on fire.

No one died in any of these incidents. But they and countless other episodes of minor street violence keep alive an atmosphere of division and tension. So do the ultras' claims that arrested ETA men are routinely tortured, and the fact that, when convicted, some are jailed hundreds of kilometres from their families. So, on the other side, and far more gravely, do the threats—sometimes carried out—to businessmen, policemen and local councillors of anti-separatist parties: some of these last have been frightened into resigning.

So far, years of tension have not bred the sort of wide communal hatred visible in Northern Ireland between the nationalists and those whom the ultras deride as *españolistas*: most Basques, whatever their views, have more wit, and, as they have often shown, more detestation, of violence. But among the young extremists, every little incident, every arrest, nurtures their sense of purpose and of grievance.

Asking for more

It is in this atmosphere that the PNV has to govern, under tireless fire from the separatist press. "With the PNV there'll never be an independent, unified Basque country," jeered one such paper last week—and quite possibly it was right. Mr Ibarretxe has just wooed the Basque far left into his government, giving him 36 of the parliament's 75 seats. He reckons he can govern without the chamber's seven pro-ETA extremists. But no wonder he feels that police measures are "necessary but not sufficient" to fight off pro-ETA sentiment.

If only, he says, the government in Madrid would help him, by devolving more power to the regional one. He has a long list of fields, headed by aspects of social security, employment and training, in which power should have been devolved to the region, under the original deal that set it up, but haven't been. Even where powers have been transferred, he claims (and Madrid denies) that the centre tries to wriggle out of its commitments.

The centre says it is quite ready to talk, indeed eager to reach a new "economic accord"—essentially on tax-collection—to replace the present one, whose 20-year life runs out on December 31st. But all these, says Madrid, are technical issues; no way will it set up a high-level political committee, as Mr Ibarretxe wants, in which centre and region would re-examine together the very basis of Basque self-government, the region's "statute of Guernica". Fulfil the statute, by negotiation, yes; rewrite it, no.

For Mr Aznar, that would be a step towards the break-up of Spain. Mr Ibarretxe sees it as the way to stop his region sliding backwards into worse violence. Too bad: Mr Aznar will not open it to him.

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Charlemagne

Jose Maria Aznar

Sep 13th 2001
From The Economist print edition

Spain's prime minister may damage his high reputation by mishandling the Basques

ON THE whole, Jose Maria Aznar has been a striking success as Spain's prime minister. When he and his conservative People's Party (PP) won power in the 1996 general election, some Spaniards were suspicious. The secular-minded suspected that they would see the stricter hand of Catholic traditionalists in social legislation. Socialist-inclined workers thought Mr Aznar might thump the trade unions. Liberals thought he might be an intolerant authoritarian, a capitalist of the crony-collecting kind. Many thought he would bear a Castilian hostility to the regions, which had gradually been gathering a lot more clout in a much less centralised Spain.

Few of these fears have been borne out. Mr Aznar has relentlessly moved his PP to what he calls "the reformist centre", denying it even the label "centre-right". He has kept a fair consensus between unions, bosses and government. In Europe, sensing the predominance of the moderate left, he has gone out of his way to befriend Britain's Tony Blair, dutifully perusing the gospel of the "Third Way".

Dour he may be, and dull on television. But on the whole Mr Aznar has been straight, efficient, clear-headed, honest. Building on foundations laid by his modernising Socialist predecessor, Felipe Gonzalez, he has steadily freed Spain's economy and overseen one of the fastest growth rates in the EU. In Europe his Spain is taken seriously; Mr Aznar makes much of its new ascendancy in Latin America, where it has overtaken the United States as the biggest investor. Mr Aznar says Spain deserves to join the G8 group of rich countries. He has a case.

But he readily admits that on one front he has been utterly stymied. "The Basque problem is *the* Spanish problem," he says bluntly. "All the others are relatively minor." Yet he looks starkly unlikely to solve it. One big reason is that even the non-violent Basques are a tricky lot, while the terrorists of ETA are militarily hard to beat because they have enough popular support to give them water to swim in. In Spain's three mainly Basque provinces, a tenth of the voters plumped for the pro-ETA party in the latest regional election, in May.

But another big reason for the impasse is that Mr Aznar has himself been obtuse, by unwisely alienating the majority of Basques who do not back ETA. In May's election, nationalists—moderates and ETA-lovers combined—won 53% of the vote. Before the poll, Mr Aznar sounded confident that his PP would oust the non-violent Basque National Party, the PNV, as the region's biggest. In the event, the voters slapped Mr Aznar in the face and gave the PNV a resounding boost of reassurance.

You might have thought that, seeing the strength of Basque nationalism, Mr Aznar would have admitted his misjudgment, changed tune and acknowledged that to defeat ETA he would have to come to terms with the PNV. Not a bit of it. Because some people in the PNV share roughly the same separatist aims as the terrorists behind ETA, Mr Aznar damns them both equally, denouncing Basque nationalism, non-violent as well as violent, as a "Nazi ideology". In particular, he makes few bones about loathing Xabier Arzalluz, the PNV's long-serving leader, as virtually a racist. He also belittles the much younger Juan Jose Ibarretxe, head of the Basques' regional government, as a mere cypher, instead of building him up—as many advised Mr Aznar to do—as a more flexible figure with whom he might profitably do business. The PNV, says Mr Aznar, "doesn't stand against ETA, it hides behind it...it excuses terrorism."

Mr Aznar's bitter feelings are understandable. ETA regularly murders politicians, especially from Mr Aznar's party, and people who just happen to be in the wrong place. The Basques already have a lot of autonomy; some of their nationalists have gone on spookily about racial identity; the PNV's Mr Arzalluz is indeed a slippery fellow whose condemnations of terrorism can carry a whiff of moral ambiguity, accompanied as they often are by denunciations of "the Spanish state". It is reasonable, too, to fear that

handing still more autonomy to the Basques might encourage other regions, especially Catalonia, to demand more too. And Mr Aznar is right to say that, if the PNV government co-operated more energetically with Madrid on security, ETA might have a harder time of it. Recent successes tend to bear that out.

Don’t put all your Basques in one exit

But Mr Aznar’s obduracy on the political front is playing into the extremists’ hands—by pointlessly antagonising the non-violent Basque majority. Basques, he says, “can argue for anything— provided, first, that they do not kill; and, second, that they respect the rules of the game.” It is, of course, precisely the game’s rules that the non-violent Basques want to change. In particular, they would probably have to alter Spain’s constitution to hold what they call “a referendum on self-determination” that might, if most people in the region wished it, lead to secession.

Never, says Mr Aznar. Spain’s indivisibility is underwritten by the constitution of 1978 endorsed by an overwhelming majority of Spaniards—and that’s that. No, say the Basques, only a minority of Basques voted in favour. Mr Aznar is impervious to arguments that in other European countries, including the United Kingdom, re-emergent nations such as the Scots would be allowed to win independence by voting for it if they so wished.

So long as Mr Aznar sets his face with such contempt against Basque nationalism of all stripes, making it harder for moderates to co-operate, he is unlikely to beat its vilest manifestation in the shape of ETA. In due course, a wilier prime minister may give the Basques their referendum. Basque terrorism might then be more easily contained, if not necessarily extinguished. And the Basques would probably vote to stay within Spain.

Mr Aznar says he will bow out when, by 2004, his current term ends. If he is to depart as a statesman, he should be brave enough to let the constitution be amended before he goes.

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Public services

King Tony and the barons

Sep 13th 2001
From The Economist print edition

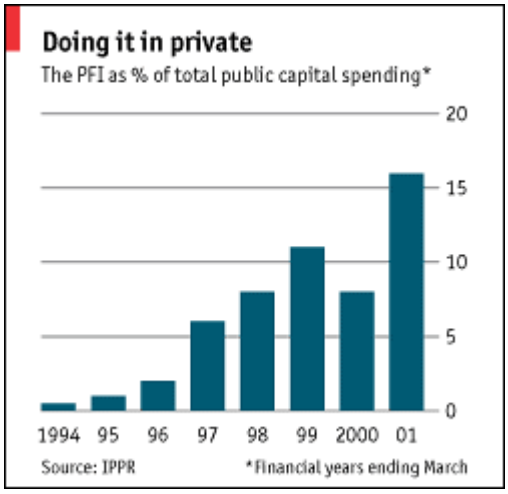
Union leaders say the government's plans for private provision of public services are a disaster for the public and the workers. That's not how it looks in practice

VISIBLY shocked by the news from America, Tony Blair did not deliver the speech he intended to make to the Trades Union Congress annual conference this week. But a clash with the union barons over his plans to extend private-sector provision in the public services has been postponed, not avoided.

The Labour Party was born out of the trade unions; so, for union leaders, Mr Blair's plans to push privatisation further than Margaret Thatcher ever did smack of betrayal. Fear also lies behind their hostility to Mr Blair's schemes. The public sector is their stronghold. Although the private sector accounts for three-quarters of civilian employment, only 19% of its employees are union members. By contrast, the union membership rate in the public sector is 60%. The unions therefore have good reason to fear the transfer of public-sector jobs into the private sector.

The unions have sought to rally public opinion to their cause. The GMB, Britain's fourth-largest union, has spearheaded opposition to the plan, which it brands as privatisation. John Edmonds, its general secretary, warns that it could become Labour's poll tax. Public services, the unions maintain, will deteriorate, and taxpayers and consumers will suffer as a result.

But compared to other European countries whose welfare states are held up as a model, Britain's core public services remain firmly in the grip of public providers. In France, a quarter of hospitals are provided by private companies, as are most ambulances. In the Netherlands, three-quarters of primary and secondary pupils attend schools that are publicly financed but privately run, mainly by non-profit organisations.



In Britain, almost all of medical care and education is still run, as well as paid for, by the state. Although ancillary services, such as cleaning, have increasingly been outsourced to private contractors, only a tiny proportion of operations on patients paid for by the NHS have been carried out in private hospitals. In 1998-99, spending on publicly funded patients treated privately was only about 5% of total expenditure on the NHS. Much the same is true of education, where only two publicly funded schools are now being run by private-sector organisations, with another one due to open next year.

Given this starting-point, the government's disputed plans to extend private-sector provision are modest to a fault. In health, for example, the government intends to make use of spare capacity in the private sector and to use private health managers to run some of the new stand-alone surgery centres it is setting up.

In education, the government wants to encourage more new schools like the privately sponsored "city academies". It intends to allow any interested party—the Church of England, for instance, or private

companies—to put forward proposals for a new school when the local education authority has identified the need for one.

Where the government has been forging ahead is in deals under the “private finance initiative” (PFI); but most of these are more about finance than about service provision. In PFI deals, expensive capital rebuilding is initially funded by the private sector. Since borrowing money is more expensive for the private sector than it is for the public sector, these deals often look suspiciously like a costly way of getting spending off the government’s books.

The most highly-rated PFI schemes have been those in the prisons sector. Four prisons have been built under the PFI since 1997. Significantly, those have been the only PFI deals under which private companies not only build, but also run all the services in, the facility they have financed.

But the interests of taxpayers and consumers are only one side of the equation. Union leaders are more concerned about the impact of these plans on their members. They argue that contractors save, and so make, money by lowering pay and exploiting workers. There are two distinct areas of worry: what happens to existing workers when services transfer, and what happens to new workers hired afterwards.

Take the new workers first. There are certainly examples of companies to which work is outsourced paying new workers much less than those they inherit. For instance, APCOA, a company that provides parking enforcement in Camden and elsewhere, pays its new parking enforcers about £6 an hour—around half as much as the transferred ones get in Camden—which APCOA says is the market rate. But Norman Rose, of the Business Services Association, a policy forum for outsourcing companies, says that for some workers—for instance, cleaners in the south-east—the market rate will be higher than the public-sector rate. The problem could be solved by public-sector procurers ensuring that pay does not fall by fixing levels in their contracts—if they are prepared to shoulder the extra costs.

The pay and conditions of transferred workers are protected under employment regulations. But the unions say these rights tend to be eroded. And occupational pension schemes are not covered. So the government last week proposed to strengthen and clarify the regulations, and to address the pensions issue; but the unions were not satisfied.

Meanwhile, ministers are exploring ways to keep workers in outsourced services within the public sector. In three controversial PFI hospital schemes, new and future ancillary staff will remain NHS employees, but be managed by private companies. But no servant can answer to two masters. This retrograde compromise is the sort of thing that gives the “third way” a bad name.

Union opposition matters to Mr Blair for two reasons. He needs the unions’ co-operation on the ground; but he would also, of course, rather they didn’t embarrass him politically, which, on the face of it, they are well-placed to do.

What the voters think of all this is not clear. An opinion poll commissioned by the GMB suggests that people agree that the public sector should remain public; other recent polls suggest that private provision is acceptable to most. What happens now is likely to crystallise people’s views, one way or the other. If schools and hospitals do not improve radically in the next couple of years, the public will demand change, never mind the cost to the unions.

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About sponsorship

Single parents

M for mum

Sep 13th 2001
From The Economist print edition

Stella Rimington makes an unlikely feminist icon

IT HAS been a big week for the cause of Britain's 1.7m single parents. On September 12th, at the Savoy hotel, Cherie Blair, the prime minister's wife, was handing out the prizes to the two women chosen as the best single parents of the year by the Work-Life Balance Trust. One of these superwomen had created Bob the Builder, the latest children's TV icon, while bringing up her children, the other an all-male production of "Swan Lake".

Don't call me "dear"

Whitehall's most famous single mum has also been doing her bit for the cause. Stella Rimington, a former head of the security service, MI5, published her memoirs this week. She is the first head of any of Britain's intelligence agencies to do so.

Her former colleagues would have preferred her to slip quietly away to tend her rose garden in the Cotswolds like the rest of the country's ex-spooks. But, confronted by her determination to publish, they have instead limited themselves to denouncing her as a traitor and a renegade. She is now out in the cold.

Not that she will be missing the camaraderie of her former colleagues very much. According to the book, the male MI5 officers that she had to work with were blimpish, monocled fools from central casting, snoozing through the afternoon after a heavy lunch at the club.

The books of other renegade spies like Peter Wright and Kim Philby titillate with juicy anecdotes about fieldcraft, the latest in bugging techniques and political plots. Ms Rimington's is a catalogue of slights, frustrations and petty humiliations at the hands of men. Even after she left the service, Ms Rimington was still encountering prejudice in the boardroom, with too many inadequate men insisting on calling her "dear".

Previously, Britain's most famous spies had to balance work with a dedication to nothing more demanding than communism, alcohol and young boys. Ms Rimington had to balance her career in MI5 with bringing up two children, and the workload of the job eventually helped to break up her marriage. That is a very contemporary story, and was clearly one of the main factors in persuading her to write the book. It should make her a new and unlikely icon for work-life balance types everywhere, and especially for the trust which champions their cause.

Its chairman, the writer Shirley Conran, has declared that women should stop having babies for ten years until the workplace becomes a more friendly place for mothers. Ms Rimington might agree with that. But maybe help is at hand. A New Labour quango, the Flexible Hours Task Force, has promised a report on this very subject. MI5 must be quaking.

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Managing the arts

Museum pieces

Sep 13th 2001
From The Economist print edition

British arts organisations are particularly hard to manage, and much of the fault lies with the great and the good who man their governing bodies

A LITTLE while ago, it seemed that a fresh breeze was blowing through Britain's fusty museums and arts organisations. A whole new generation of directors, many of them from abroad, was appointed to help set the biggest of these institutions on a new footing. Money from the national lottery was pouring into the arts, which had been starved of cash since the Conservatives came to power in 1979.

PA

But now these directors are quitting, almost all of them before the end of their contracts. Michael Kaiser, the American administrator who was brought in to sort out the chaos at the Royal Opera House less than three years ago, left at the turn of the year. Lars Nittve left Tate Modern earlier in the summer after barely a year in the job. In July, Karsten Witt, a mild-mannered German record company executive hired by the South Bank Centre, announced that he would be leaving the post of chief executive at the end of the year. Last Friday, it was the turn of Suzanna Taverne, the 41-year-old managing director of the British Museum (BM), to resign. What is going on?

Some of the administrators' problems are particular to their organisations. Much of Mr Kaiser's time at Covent Garden was taken up in dealing with the chairman of the board, Sir Colin Southgate, who seemed to want to override many of Mr Kaiser's decisions yet did little to help him raise funds. Other trustees were equally unsupportive. Only two of them bought tickets for a major fund-raising event last year held in conjunction with the Maryinsky Theatre of St Petersburg. The chairman did not even attend. For Mr Kaiser, who is accustomed to the mantra of American trustees—give, get or get off—the lack of support was proof to him of how intractable his job had become.

Particular circumstances aside, though, Britain's arts administrators face common problems. The relationship with the civil service is Byzantine. Structures of governance are at worst nonsensical and at best unclear. The roles of the boards of trustees, the governing bodies, are often obscure. No organisation welcomes change, and under these conditions, reform has proved well-nigh impossible. For many directors, usually paid around £85,000 ($125,000) a year, the struggle has proved too much.

Nowhere is this truer than at the British Museum. Ms Taverne, a former banker and director of strategy at Pearson (which part-owns *The Economist*) was appointed two years ago at the instigation of the culture ministry, which was concerned about the way the museum was managed. The job of director, then held by a shy expert in the history of science, Robert Anderson, was divided in two. Ms Taverne took over financial management of the museum as well as responsibility for planning for its future.

She began replacing the museum's curatorial fiefdoms with a more streamlined chain of command. Some senior curators were unhappy at this, but lower down the museum's hierarchy many employees welcomed the change.

Ms Taverne was less successful in her efforts to persuade the trustees to reform themselves—not surprising, since the board is something of a self-perpetuating club. Some of the 25 trustees are appointed by the government, one by the queen, others by academic institutions and five by the trustees themselves. Only recently has any limit been put on a trustee's term of office. There is no way of measuring trustees' performance. When the permanent secretary at the culture ministry mildly

suggested something along those lines earlier this year, he was laughed off by the chairman of the trustees, Graham Greene, who has been a trustee for 23 years.

The opening of the Great Court, the spectacular £100m renovation of the BM's Reading Room, in December 2000, was a grand opportunity to dust off the museum's image. The momentum generated by this occasion was meant to continue through to the 150th anniversary celebrations in 2003, offering the BM the chance to assert its claim to a place among the world's great museums, on a par with Paris's Louvre and New York's Metropolitan Museum.

That was the plan. But then, almost inexplicably, the museum decided midstream to elect a new chairman and appoint a new director—and has thereby lost much of the credit it had recently gained.

As its new chairman, the BM chose Sir John Boyd, a former diplomat in poor health with a reputation for indecision. His name was put forward in March, at the same time as that of Sir John Browne, the dynamic chairman of BP, whom everyone thought would win the election. But when Sir John Browne withdrew his candidacy, having been made a working peer, Mr Greene urged trustees to go with a second-rate candidate rather than start the election process afresh. Sir John Boyd's appointment was a signal to the reformers that they had lost.

As for the directorship, the trustees are planning to abolish the post of managing director and are looking for a curator to run the place. Ms Taverne has resigned. The old management structure which served the museum so badly in the past, and which the Treasury tried to change two years ago, has thus been reimposed.

The board may come to regret the management hiatus it has caused. It will take time to find a new boss; yet, in the next few weeks, the museum is due to begin six months of negotiations with the government over its money for the next three years. Without proper leadership, it is hard to see how serious negotiations can take place. At the same time, there are fewer visitors than last year, partly because of foot-and-mouth and partly because of the economic slowdown. The museum's income is falling. Later this month the board will be told that it cannot afford to go ahead with its much discussed plans to create an £80m study centre. The momentum created last year is lost; and the fault, to a large extent, is the trustees'.

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Children's television

Join the crowd

Sep 13th 2001
From The Economist print edition

Can we brand it? Yes we can

AT A time of fierce competition in the music industry, which artist made it to the top of the singles chart this week? Bob the Builder, a character from a children's animated television programme. And this was the tiny toiler's second number-one hit. His chart-topping success illustrates what has been happening to the children's television market, an industry that is set to be shaken up even further by the BBC's expansion plans.

Bob the Brander

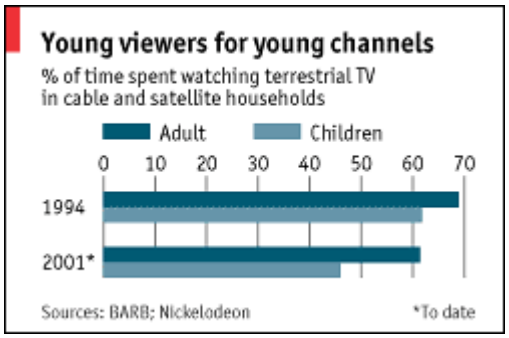
On September 13th, Tessa Jowell, the media minister, was expected to announce that the BBC could go ahead with its plans to launch four new digital channels, three of them targeted at young people. That the BBC is so keen to march into this market partly reflects a public-service concern that it is "losing" a younger generation raised on multi-channel TV. But it is also because children's TV has become increasingly lucrative.

On the face of it, this seems odd. Thanks in part to government regulation, advertising revenues for children's television are a fraction of those for adult programmes. An average spot for a 30-second ad during kids' prime-time on terrestrial television will bring in less than a tenth of that for a spot during an adult prime-time soap, and even less on a pay-TV channel. With ad revenues falling steeply, the market hardly looks alluring.

Yet the amount of programming devoted to children has exploded. A decade ago, kids were offered two hours after school on the terrestrial broadcasters, BBC 1 and 2, ITV and Channel 4. Today, there are 14 digital channels dedicated to them, such as the Cartoon Network, owned by AOL Time Warner, an American media giant, or Nick Junior, part-owned by BSkyB and Viacom, another conglomerate. Why?

The short answer is branding. Children's programmes are cheap to make—the BBC spends over five times as much to produce an hour of adult drama as it does an hour of children's programming—while the payback in terms of videos, toys, games, clothing and books can be huge. "The evolution of merchandising has absolutely transformed children's TV," says Annie Miles, managing director of Fox Kids UK, now part of the Walt Disney Company. "With merchandising, you can triple or quadruple your investment over a five-year period."

Plainly, it requires an unusual sense of imagination and fashion as well as luck to create a hit character. Plenty fail. And it is harder still to invent a long-lasting classic. But, when you do, you hit the jackpot. By itself, Bob the Builder, a property owned by HIT Entertainment, a British independent, accounted for 62% of the group's revenues of £12.8m in the six months to January 2001. Now that HIT has sold the show to Nickelodeon in the United States, the most-watched children's channel there, it can expect sales of jackets, hard hats, building bricks and the like to soar.



What is more, the multiplier effect of merchandising is growing as children become savvier consumers. A phenomenon known in the business as "KGOY", or Kids Getting Older Younger, has put more money—or at least more power to pester Mum and Dad—in the pockets of tinies as young as three. At the same time, children are more

exposed to television: while two-fifths of all British homes pay for multi-channel TV, nearly three-fifths of homes with children do so. And kids are choosing more of what they watch. Over half of children now have a TV set in their bedrooms, as do a staggering 36% of the under-threes, according to a recent survey by the Independent Television Commission.

Given this fierce competition, it is no surprise that the commercial channel-operators are furious about the BBC's plans, particularly when the corporation is using a compulsory licence fee to finance them. According to a study by Arthur Andersen for Nickelodeon UK, if each of the BBC's two new kids' channels grabbed 10% of viewers, the existing channels could lose up to £400m in revenues over five years.

While some channels, such as the Cartoon Network, still rely heavily on the libraries of their American parents, even the American giants have begun to invest in local stuff. Already, some 70-80% of the content on Nick Junior, one of Nickelodeon UK's channels, is locally made, such as a British version of its educational pre-school show, "Blue's Clues". Should revenues fall dramatically, says Paul Lindley, Nickelodeon UK's deputy managing director, this share would be hard to sustain.

While the BBC argues that its plans are motivated by the desire to extend public service television further into the children's market, commercial logic is never far away. Bob the Builder's current number-one single was produced by, yes, BBC Music as part of a licensing deal with HIT. *Bob the Builder* magazine, published by the BBC, sells 120,000 copies a month—about the same as GQ, a men's magazine. In the year to March 2001, children's brands raked in £90m for BBC Worldwide, the corporation's commercial arm, or nearly a sixth of total turnover, up from £10m just four years ago. "I guarantee that their ability to sell stuff that has a marketable side will make the BBC more likely to commission those sorts of programmes," says a rival in the business.

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Bagehot

No hard feelings

Sep 13th 2001
From The Economist print edition

Iain Duncan Smith may prove a better Conservative leader than his predecessor

IT WAS a bad idea even while it lasted. Before Tuesday's horror in America, Britain's Tories had intended to name their new leader at a Wednesday-night extravaganza in a Westminster conference hall. Party managers hoped that the presence of the media and hundreds of party members would impose some manners on the final two candidates. The winner would sing the loser's praises and refrain from smirking. The loser would hide his hard feelings behind clenched teeth. Having spent the summer calling the other a deluded incompetent, winner and loser would stage an extravagant public reconciliation and resume their struggle against the monstrousness of Blairism.

In the end, William Hague's last decision as Tory leader was to cancel the big show—ostensibly out of respect for America, but also to avoid the inevitable bathos. Victory for Iain Duncan Smith (already “IDS”, to headline-writers) was declared instead in a simple statement on Thursday. This was a better plan all round. A summer of bile was never going to be washed away in a single evening of simulated concord. And whatever they say in public, many MPs who had campaigned for Kenneth Clarke still genuinely think that the party has committed suicide. Their case goes something like this.

First, who is this Mr Duncan Smith? On examination, he appears to have even less experience and charisma than Mr Hague, who bombed in June's general election. Mr Hague had at least been noticed for making a precocious speech at the age of 16; did at least serve as Welsh secretary under John Major; was at least a clever debater. Mr Duncan Smith, in contrast, did not rise far in the army, was never a minister, and is as bald as Mr Hague. Furthermore, Mr Hague was at heart a liberal sort of fellow, who donned a baseball cap at the Notting Hill carnival before lurching right in the hunt for votes. Mr Duncan Smith, on the other hand, is the genuine article: an extremist “hanger and flogger”, as Mr Clarke put it, whose objection to British adoption of the euro masks a secret ambition to withdraw from the European Union altogether. By declining Mr Hague's invitation to “save the pound” in June's election, voters showed that they did not want a eurosceptic to lead the Tories. Instead, they have appointed an even wilder one. This will not only render the party terminally unelectable. It might also cause it to split. Lord Hurd, a former Conservative foreign secretary friendly to the EU, pointed out before the result that since Mr Duncan Smith had shown no loyalty when Mr Major was trying to square the Tories' vicious circle on Europe, he could expect none in return from Mr Clarke's pro-European wing of the party.

Second, the party has not merely chosen a raving and divisive nonentity to lead it. It has done so at a moment of maximum peril. Conservatism itself is flirting with extinction. It is in decline as a social force; the party that had more than 1m members is down to just over 300,000. It is in decline as a political force; Britons put up with Thatcherism when desperate times required desperate remedies, but spurn it now that the unions are tamed and the market quite rampant enough. If they like conservatism, they find the compassionate variety on offer from Mr Blair more to their taste. A democracy requires an opposition, but now might be the turn of the Liberal Democrats. Of course they cannot simply take the Conservatives' place, given that their high-taxing, high-spending policies have put them on Labour's left. But if Labour completes its metamorphosis into a party of the centre-right, and Mr Duncan Smith continues to turn the Tories into a xenophobic sect, why should the Lib Dems not become the principal opposition on the left?

It needn't be that bad

These are entertaining speculations. But although much changes in politics, much endures. It would, for example, be strangely careless of Mr Blair, he of the big tent, to move so plainly to the centre-right that he loses the support of the trade unions and the wider Labour movement; he was working hard this very week to sell them the merits of his public-private partnerships. It would be almost impossible for Charles Kennedy, the Lib Dem leader, to put himself squarely on Labour's left: the Lib Dems see themselves still as the centre party and depend in many seats on being seen that way. Provided that Mr Duncan Smith is not a complete duffer, the Tories have a fair chance of remaining Britain's main opposition party for many years to come.

Is IDS a duffer? He has just vanquished Mr Clarke, one of Britain's most seasoned politicians. He is a bit dull. But some voters felt that Mr Hague's parliamentary wit denoted a lack of seriousness. Though a social conservative, he comes over as a calm and relaxed one, whom Labour will be hard put to brand as a raver. He is certainly hostile to Europe. But so are most British voters: it was the Tories the voters rejected last June, not—as Mr Clarke's camp pretends— the Tory line on the euro. As for a split on Europe, where would the pro-euro Tories go? Some may defect, but on past showing most will be content to sulk—and to resume their plans to win the party back next time round.

Such calculations would change if it became evident that conservatism itself was indeed washed up. But Labour is not invulnerable: its recent election victory was notable for a low turnout and a tepid mandate. And it is easy during a bruising leadership contest to pay too much attention to the rhetorical blows the contestants land upon each other in order to prove that they alone can stave off imminent disaster. Tory membership is in decline, but so is Labour's. The Tories are weak on policy, but Labour's “third way” is hardly the epitome of Cartesian rigour. Though the Tories have divisions, all parties are coalitions. Indeed, the Tories have limped along for so long with their divisions on Europe that these have taken on the aspect of a permanent disfigurement, rather like a hunched back. It is not attractive. Nor, perhaps, does it have to be life-threatening.

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Mobile telecoms

The joy of text

Sep 13th 2001
From The Economist print edition

What are the implications of text messaging for "third-generation" mobile phones?

BETTER late than never. After a five-month delay, the world's first commercial "third-generation" (3G) mobile-phone service is to be launched on October 1st in Japan by NTT DoCoMo, the country's main mobile operator. Elsewhere, 3G remains a distant dream. But mobile-phone users in many countries (although few in America) already use another data service, more primitive but hugely popular: text messaging. Hence a question for would-be 3G operators outside Japan: is "texting" the bridge to the future, or an alternative?

The lucky Japanese will now enjoy both versions of the future. Not only are they keen on texting. In addition, subscribers to DoCoMo's new 3G service, which has been available to 4,500 trial users since May, will be able to gain access to the Internet at far higher speeds than they can with DoCoMo's present technology, already the world's most advanced mobile-Internet service.

The 3G handsets are as small and light as existing handsets, with the same vivid colour screens that are used to display e-mail messages, cartoon graphics and cut-down web pages. The most advanced model even allows users to make and receive video calls, using a tiny built-in camera. By next March, DoCoMo hopes to sign up 150,000 3G subscribers, most of whom are expected to be business customers.

Other mobile-phone operators, mainly in Europe, are burdened with debts incurred after they paid more than $100 billion for licences to operate 3G services, which will now launch many months behind schedule. Coverage may become available in some parts of Europe next year, but will not be widespread until 2003 at the earliest.

Even when 3G eventually arrives, it is not clear how operators will entice users to upgrade to it. The service they will offer will be far less versatile than DoCoMo's. The performance of a 3G network depends on the density of its base stations. In Japan, density is relatively cheap to achieve. Not so in Europe, where cash-strapped operators are building sparse, "thin and crispy" networks. These will offer lower data-transmission rates than originally planned. So promises of video on 3G phones have been quietly dropped.

Murky though the prospects for fancy data services on 3G may be, mobile-phone users in Europe and Asia are already wildly enthusiastic (and profitable) users of a data service of a far more basic type. For there has been an extraordinary boom in text messaging, which allows users to send short, telegram-like messages of up to 160 characters from one mobile phone to another. The number of text messages sent each month has grown from a global 4 billion in December 1999 to 20 billion in December 2000, and it is expected to reach 40 billion by December 2001, according to figures compiled by Simon Buckingham of Mobile Streams, a consultancy based in Newbury, England.

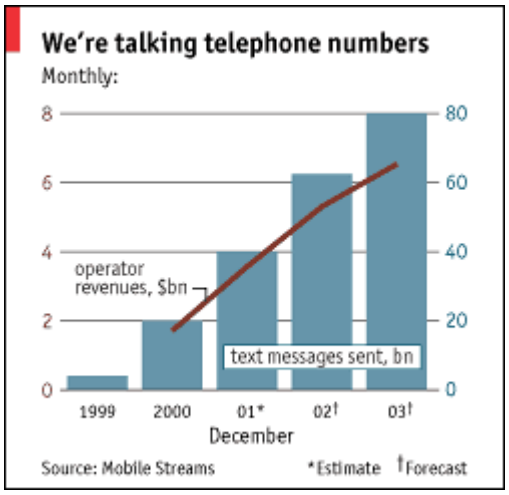
U cd try 2 txt me

Text messaging, known as Short Message Service (or SMS) in many parts of the world, is particularly popular in Europe (where 47% of Swedes and 39% of Italians use the service) and in Asia. In the Philippines, the use of text messaging as an organisational tool by protesters is even credited with

helping to overthrow Joseph Estrada, the country's then president, in January. But text messaging is almost non-existent in America, where it is used by only around 2% of the population, according to Gartner, a consultancy. One reason is that mobile phones are less popular in America than elsewhere; fewer than 40% of people have them, compared with more than 70% in parts of Europe. Besides, because PCs are cheap in America and local calls are free, Americans prefer "instant messaging", a similar form of communication between Internet-connected PCs.

The success of text messaging is surprising given that it is fiddly to use a mobile handset as a keyboard—and that it costs an average of $0.10 to send a text message. But teenagers in particular have embraced "texting" largely because sending a message is cheaper, if more laborious, than making a voice call. The resulting torrent of messages has been an unexpected bonanza for operators. Text-message revenues now amount to over $3 billion a month, says Mr Buckingham, and they will exceed $5 billion a month by December 2002 (see chart). For some operators, text messages now account for more than 10% of revenue.

This money is thoroughly welcome. But the runaway success of text messaging does not fit in with the industry's plan to persuade customers to use data services, as well as making voice calls, on their mobile phones. Instead, the industry has enthused about "wireless application protocol" (WAP), a cut-down and simple imitation of the web. The idea was that, as 3G networks and phones became available, WAP would improve and become more web-like. But WAP is slow and expensive to use, and it requires people to upgrade their phones; it has therefore been a flop. It accounts for less than 0.5% of operator revenues. Users voted with their fingers: they prefer texting.



WAP failed for another reason too: rather as with the web, companies that provide WAP content find it hard to charge for it. But, by offering a premium-rate text-message service, and splitting the revenue with operators, content providers can make money. Downloadable ringtones and screen logos are the most popular purchases, but a broader range of services is becoming available as content that was originally designed for WAP is rejigged for delivery by text message.

For example, wcities, a firm whose software enables operators to provide location-based information to mobile-phone users, recently launched a text-message version of its services. The slow takeoff of 3G, says Tan Rasab, the company's founder, means that the industry is looking for a way to make money from existing technologies. Text messaging has the advantage, he says, that "it is a widely used, chargeable service that is available now."

Can operators exploit the success of text messaging to encourage users to switch to more advanced 3G services in future? A recent report from Salomon Smith Barney argues that they can. The report's author, John Hill, describes text messaging as "a critical bridge technology to 3G". He predicts that text messaging will take off in America, and become even more popular elsewhere, as mobile text-message and PC instant-message systems are linked up.

Mr Buckingham agrees, but argues that operators must offer a steady stream of improvements to the basic text-message service—such as the addition of graphics and animation—in order to hold users' interest and encourage them to migrate gradually to more complex services. More advanced messaging technologies, such as the Enhanced Message Service standard, are already starting to emerge. On 3G phones, an even fancier type of messaging, called the Multimedia Message Service, is possible: it will allow people to send and receive photographs. Surveys suggest that people are prepared to pay between two and five times as much to send a picture message as they are to send a text message.

The success of text messaging came as a surprise to operators. But they should now learn from their mistake. Mobile users will not use their telephones like PCs, to browse for information. They will use them to communicate with each other, and occasionally to request valuable chunks of information. The good news is that they are prepared to pay for it.

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The future of Microsoft

Not off the hook

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A regulated monopoly may create more problems than an unregulated one

Watch your conduct, Bill

REMEMBER Harold Greene, the legendary district judge who oversaw the break-up of AT&T in the 1980s and became the über-regulator of America's telecoms industry for more than a decade? The chances are that Colleen Kollar-Kotelly, the new judge who is starting the next round of proceedings in the Microsoft trial on September 14th, the deadline for the first legal filings, is in for a similar job in the software industry. For it looks increasingly likely that Microsoft is destined to become a regulated monopoly of sorts.

The new, more conservative team of trustbusters in the Department of Justice (DOJ) handed the software giant an apparent victory with the announcement, on September 6th, that the federal government would no longer pursue a break-up of the company. The DOJ even abandoned the original claim in the case: that Microsoft had illegally bundled its web browser, Internet Explorer, with its monopoly Windows operating system.

Yet this by no means signals that Microsoft is off the hook. Charles James, the new head of the DOJ's antitrust division, and the 18 state attorneys general who are also involved, now have their hands free to pursue restrictions on Microsoft's behaviour, known as "conduct remedies". They also have a blueprint from which to work: the list of interim provisions that Thomas Penfield Jackson, Judge Kollar-Kotelly's predecessor, had ordered last June pending a break-up.

The conduct remedies, which received scant attention because of the focus on the break-up, were designed to stop Microsoft from repeating the practices of which it had been found guilty. Judge Jackson ordered, for instance, that Microsoft must refrain from threatening PC makers which install competing software; not reward any of them with favourable licensing terms; and allow them freely to configure Windows, even to the extent of replacing the user interface of the program.

But these remedies were designed only as interim measures. That, says the DOJ's antitrust division, is why it will ask the court "to evaluate whether additional conduct-related provisions are necessary, especially in the absence of a break-up."

The state attorneys general have also vowed to make sure that Microsoft does not get away with a mere slap on the wrist, even at the price of appearing to break ranks with the DOJ. Thus they want the new rules also to apply to Windows XP, Microsoft's new operating system, at least retroactively. The states' trustbusters—along with the DOJ—have decided, however, not to file an injunction to block the release of the program, which is due out on October 25th and has already been shipped to PC makers.

The attorneys general, who have only grudgingly agreed to go along with the DOJ's decision to drop the break-up, will try to argue that Windows is an "essential facility", much like a bridge to which everybody should have equal access. They could, for instance, seek rules to stop Microsoft from "co-mingling" the code of Windows with new applications and services—allowing PC makers to swap, say, Microsoft's multimedia software or its "Passport" authentication utility for competing products.

In terms of compliance, Judge Jackson's interim provisions seem to be merely a starting-point. He had ordered that the company establish a "compliance committee" of its board of directors, which in turn was supposed to hire a chief compliance officer with broad powers. A new court order or a consent decree might include a provision for stiff fines or even a break-up if Microsoft were found to have violated any remedies.

All this may make a settlement in the case less not more likely, although the parties reportedly met this week in Washington to discuss Microsoft's first settlement proposal. Even if the company finds common ground with American regulators, it is likely to suffer more assaults from their European counterparts. On August 30th the European Commission broadened its antitrust investigation of Microsoft, introducing new claims that the company has violated the law by tightly bundling Windows and its multimedia software.

The main goal of the long-running trial was to create more competition in the software industry. However, the real winners could turn out to be PC makers. Microsoft's monopoly power has reduced them to mere manufacturers of commodity products. Stringent conduct remedies could in future allow them to differentiate their machines more—an opportunity they would certainly appreciate, given their ever-crumbling margins and the fact that worldwide sales of PCS are likely to fall this year.

Microsoft's critics and competitors would also love to see the software giant put in a straitjacket. But this might not be such a desirable outcome—because it will be exceedingly difficult to tailor one that really fits. If the constraints on the company are too loose, it will find ways out of them. If they are too tight, they may stifle innovation. In any case, enforcing conduct remedies promises to be a regulatory quagmire for years to come. A break-up would have been a cleaner solution.

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The airline business

A grim flight

Sep 13th 2001
From The Economist print edition

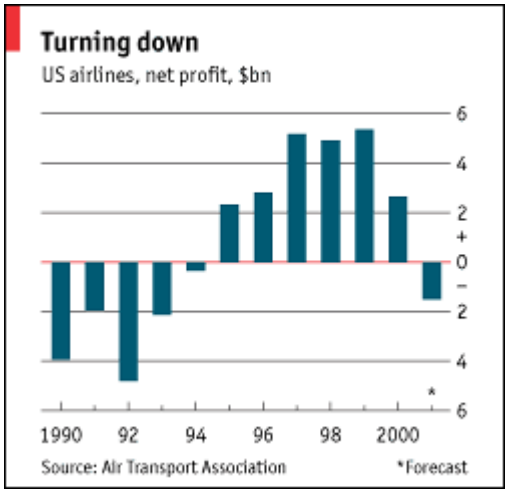
Air travel after the attack on America

OF ALL the businesses to be sent reeling by the co-ordinated hijacking of four passenger airliners for suicide attacks in America, the worst affected will surely be the travel industry. Airline profits were already tumbling after a spectacular drop in the number of business passengers. Now carriers face a flood of cancellations from worried travellers, the risk of increased fuel costs and delays and disruptions from a massive increase in airport security. This could lead to even more bankruptcies in the industry.

Air travel in America came to an abrupt halt on September 11th after all the country's 19,000 airports were closed. By the time the airline system had struggled to get going again, the chaos had spread. Airports worldwide had stranded passengers and delayed flights. Many airlines rely on flights to and from the United States, the biggest airline market in the world, for much of their business. "It means losses for the whole airline industry," predicted a gloomy Jürgen Weber, chief executive of Germany's Lufthansa.

The slump in air travel began earlier this year in America, as the country's economy was the first to slow, and then spread to other parts of the world. At the start of 2001, America's Air Transport Association was predicting another profitable year for the main carriers in the United States. By August, it had revised its estimate to a combined loss of at least $1.5 billion in 2001—the worst performance since 1993 (see chart).

The fall in business travel has been particularly painful: airlines rely on such passengers for roughly two-thirds of their revenues. Now leisure travel is expected to be hit too. As happened in the Gulf war, many American tourists will worry about becoming targets while travelling abroad.



All this will shrink the profits not only of airlines, but of a wide variety of other businesses in the travel industry, ranging from hotels to car-rental companies. As a sign of things to come, Midway Airlines, a regional carrier based in North Carolina, suspended all future flights on September 12th and sacked its 1,700 employees. The airline had filed for bankruptcy protection in August, blaming a "calamitous" drop in business traffic.

Extra security at America's airports will push up costs even more. For a long time, airline security in America has been a weak point in the global airline system. America's "domestic airline security has always been inadequate, as they never felt the threat," says Paul Wilkinson, of the British-based Centre for the Study of Terrorism and Political Violence.

America's Federal Aviation Administration had started to update security rules, and earlier this year said that it would fine American Airlines—one of the carriers whose aircraft were hijacked on September 11th—for allowing bags to travel unaccompanied, failing to identify passengers and forgetting to ask security questions.

Increased security will mean more delays. This has a direct effect on the capacity and cost of air travel. Many American airports run at more than full capacity for at least some of the time. To allow for tougher security measures, flights will have to be rescheduled. Fewer flights will increase congestion at airports and push up costs for airlines.

Of course, a slump in air travel may cut some of the queues. And flying might even end up safer—for a while. But eventually, complaints about long delays at check-ins will begin again. Security staff will became bored and complacent and everybody involved will start to skip some of the checks to speed things up. It seems almost inevitable that another security gap will then open in the global airline system, again with terrible consequences.

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The troubles of Moulinex-Brandt

Kitchen sinking

Sep 13th 2001 | PARIS
From The Economist print edition

Europe's third-largest white-goods maker teeters on the edge

AS RECENTLY as early July, managers of Moulinex-Brandt, a French-Italian group that makes electrical and white goods, issued a statement denying that they were preparing to file for bankruptcy protection. In August, the group was tantalisingly close to a rescue deal via a recapitalisation. But on September 7th came a bleak announcement: Moulinex-Brandt had suspended payments to creditors and been placed under six months' court protection while a buyer is sought. Thousands of jobs are at risk.

It is a sorry end for a French icon that dates from 1932 and was a pioneer of labour-saving domestic appliances. But for more than 15 years Moulinex had lurched from misadventure to crisis, under a succession of managers. In a market as fiercely competitive as white goods, this was a sure recipe for trouble. Even a smart move in the early 1990s to buy Krups, a German competitor that owns one of Europe's strongest brands, was undermined by the debt burden taken on to acquire it.

But the Moulinex story is also a cautionary tale about European business, because its fate was ultimately decided by the control structure that resulted from its merger at the end of last year with Brandt, the Italian offshoot of El.Fi, a holding company controlled by the Novicelli family.

These Brescian entrepreneurs first bought a 23% stake in Moulinex in March 2000, and then took control at the end of that year, believing that their Brandt business could carry the indebted and loss-making French group through its troubles. Under the terms of the deal, the Novicellis owned 74% of the merged group's capital.

However, Moulinex-Brandt's debts proved crippling, especially once Brandt's own business slowed. At the last count at the end of April, indebtedness had reached *euro*820m ($727m), and it is certainly higher today.

Patrick Puy, the group's boss, struggled to put together a rescue plan. He claims that bank financing was available, had El.Fi been prepared to inject its share of the *euro*230m of new money that would be needed over three years to save the group. But the Italians refused, and objected strongly when it was pointed out that they had extracted *euro*120m from Brandt shortly before its merger with Moulinex. Profit, they said, from an unrelated sale. To Mr Puy, it looks like cash that could have made the merged entity viable. Instead, Moulinex-Brandt will probably be broken up, and its separate brands either sold to rivals or closed. How sad.

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Europe's paper and pulp industry

Turning over a new leaf?

Sep 13th 2001 | VALKEAKOSKI AND HELSINKI
From The Economist print edition

Why paper making is becoming less volatile

WHO in their right mind would buy shares in Europe's paper and pulp companies? A recent study by analysts at Merrill Lynch found that long-term returns have been disastrous. Between 1974 and the end of 2000 the industry underperformed the overall European market by a shocking 914%. Performance over the past five years has been especially dismal. And even in the few periods when paper and pulp has outperformed, it has been riskier than the market in general, thanks to wild swings in the price of pulp, the industry's main raw material.

There are other reasons to be sceptical about investing in the paper and pulp business. Despite several bouts of consolidation, Europe still has more than 1,000 paper companies, reckons Pertti Laine, research director of the Finnish Forest Industries Federation in Helsinki. Many are small and medium-sized family firms. These marginal producers have long made it hard for bigger groups to avoid price wars when demand for paper has fallen. Italy alone has some 200 privately owned paper makers, most of them producing less than the output of a single big mill in Finland or Sweden. In addition, low-cost paper makers in Asia and South America are adding to the competitive pressure.

Talk to Europe's biggest paper producers and a more positive picture of the industry emerges. "The Merrill Lynch study covers a period when the industry was fragmented and was behaving badly," says Esko Makelainen, senior executive vice-president of Stora Enso, the world's second-largest paper producer (see chart). "Today we are much more disciplined and more focused on creating stable returns." And more global: Finnish paper makers had a turnover last year of 200 billion markka ($30.78 billion), a figure that has doubled since 1996 and quadrupled since 1992. Some 90% of that turnover is outside Finland.

Aggressive acquisitions have helped to create the two Finnish paper giants, Stora Enso and UPM-Kymmene, the world's fourth-largest producer. Shares in Stora Enso recently shot up amid unconfirmed rumours that it was in merger talks with America's International Paper, a *euro*40 billion ($36.6 billion) deal that would create a new global giant. A year ago Stora Enso bought Consolidated Papers, another American paper maker, for *euro*4.9 billion.

Other mergers and selective disposals of non-core units have helped big paper firms to reshape their operations. In May UPM-Kymmene announced the *euro*3.6 billion purchase of Haindl, Germany's biggest publishing-paper producer and a company considered one of the most efficient in the world. If antitrust regulators approve the deal, two of Haindl's mills will immediately be sold to Norske Skog, an aggressive Norwegian company that spent $2.5 billion last year buying Fletcher Challenge Paper in New Zealand.

Increasing size has been accompanied by the introduction of more sophisticated production methods. Paper making is a capital-intensive business: a big pulp mill can cost as much as $1 billion, while a paper mill costs around $300m. It takes on average two years to build a facility from scratch. Once in operation, the machines run continuously, stopping only for maintenance and the occasional breakdown. Modern machines can last for 25 years.

The new face of the industry is UPM-Kymmene's huge Tervasaari mill at Valkeakoski, two hours' drive north of Helsinki. It produces pulp from raw wood, but also boasts state-of-the-art machines to make the speciality papers that constitute most of its production. One of the newest production lines makes release papers, used to hold sticky labels until they go on retail products. It spins huge rolls, 6.4 metres wide (21.3 feet) wide, that are then cut into more manageable sizes. The line makes a kilometre of paper every minute, runs non-stop and requires only 14 workers per shift. The 200,000 tons of release paper produced annually at Tervasaari represent a quarter of world production.

Europe's paper industry has become more concentrated

Thanks to the rearranging of assets that has taken place, Europe's paper industry has become more concentrated. The top five companies still have only 15% share of the total market, but far more for particular types of paper. That gives them greater power to keep production in line with market needs, and to avoid the previous tendency to over-produce. So far this year, the industry has avoided its old habit of piling on new capacity, only to see prices tumble. No new paper machines have been announced anywhere in the past six months, a silence that industry analysts hope will last. That would help to hold capacity growth below the long-term rate of annual growth in demand for paper of around 3%.

Nor are leading companies adding capacity simply for the sake of it, as they have often done in the past by building more and bigger mills. Instead, as Juha Niemela, boss of UPM-Kymmene, points out, they have streamlined the business, concentrating on particular grades of paper, such as fine papers for office use, and sought to consolidate paper making in products with the biggest technical demands and the highest economic returns. For example, more than 60% of Finnish paper companies' output is dedicated to high-value printing and magazine paper.

These changes have brought new possibilities for riding the economic cycle. In the past, paper makers had little flexibility. Now, says Mr Makelainen, some are big enough to try to optimise their production, grouping similar machines into coherent units and, if necessary, halting production to reflect market conditions. "We can channel our production into units with the best machines for particular products," he says. By concentrating on what will be profitable rather than on volume, Scandinavia's paper makers might even improve their long-term performance enough to lure back investors.

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Taxing vice in South Africa

Making it pay

Sep 13th 2001 | JOHANNESBURG
From The Economist print edition

Gamblers have proved a boon to the taxman. How about prostitutes?

IF YOU can't beat them, tax them. Such is the laudable logic that South Africa's government is applying to some of the murkier corners of the economy. Legalising gambling has brought the exchequer extra revenue. Could such a policy work for the sex industry? A recent court ruling that the law against prostitution discriminates against women, and so is unsound, has left many wondering whether the oldest profession could also become a useful source of tax.

Since 1996, new laws allowing casinos and gambling have helped to divert profits from crooks to the provinces' taxmen. Gauteng, which includes Johannesburg, with its hideously kitsch casinos, has done particularly well. According to the national gambling board, the five casinos that operated there in the year to March 2000—there are more now—grossed over 2 billion rand ($325m) from deluded punters, and passed on 183m rand in provincial tax.

Add in bingo and bookmakers, and gross gambling-tax revenues for the country crept up to nearly 450m rand for that year. The board is in the process of gathering new figures for the latest fiscal year. These are sure to show a hefty rise as Northern Cape, Western Cape and KwaZulu-Natal provinces replace underground casinos with their first legal ones. In June, police in KwaZulu-Natal said they had shut down 111 illicit casinos since August 2000. For Gauteng alone, in the year to March 2001, tax revenues from gambling (mostly casinos) were a useful 288m rand.

Now some argue that prostitution should be taken out of the clutches of pimps and gangsters. "We would like it to be regulated like any other industry," says Jane Arnott of the Sex Worker Education and Advocacy Taskforce (SWEAT) in Cape Town. If prostitution is decriminalised and regulated, sex workers could work openly in demarcated areas, undergo health checks and even pay tax.

The government may blanche at this. It is already facing criticism from churches and social-welfare groups over gambling addiction among the poor. Accusations that it benefits from "immoral earnings" would sting. But Pravin Gordhan, the Revenue Service Commissioner, is reported to be monitoring the sex industry ahead of a law-commission recommendation on decriminalisation, expected later this year. The industry could be worth 250m rand a year in taxes, he suggests. Welcome cash, if the government could only face getting into bed with the prostitutes.

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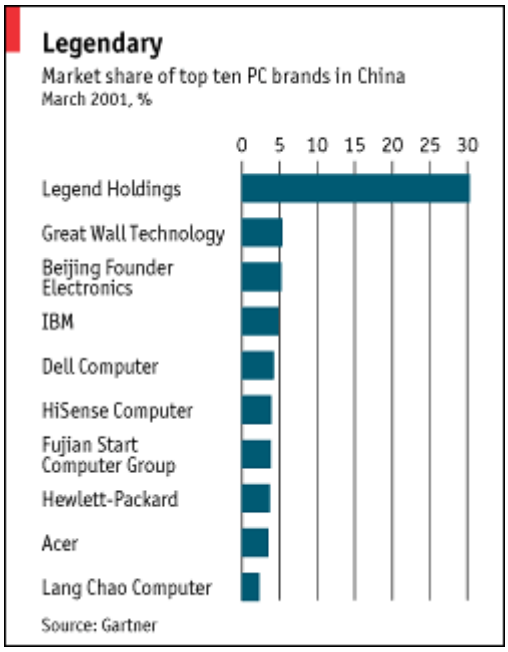
Face value

Legend in the making

Sep 13th 2001
From The Economist print edition

Can Liu Chuanzhi turn China's biggest computer maker into its first global brand?

"OUR earliest and best teacher was Hewlett-Packard," says Liu Chuanzhi, chairman of Legend, China's biggest computer maker. For more than a decade, as HP's distributor in China, Mr Liu has been studying the HP way, and adapting it to fit the bizarre vagaries of China's emerging marketplace. With deadly effect: in the 1990s, Legend gave its western rivals, including HP, a run for their money and today it dominates the market (see chart). So Mr Liu must have watched with special interest this month as his mentor announced a controversial takeover of Compaq that will, if it goes ahead, make HP the world's number one. For that is a position that Mr Liu hopes that Legend will achieve in the next decade or so.



In pursuing this ambition, Legend's dominance in China may prove to be its biggest advantage. Whereas the world market for PCS started shrinking this year, China's will expand by 25-30%, according to IDC, an American research firm, and to continue growing at a slower rate in the next five years. And Legend is likely to get a third of those sales. Unlike its western rivals, therefore, Legend still surprises with good news—most recently when it announced last month that profits in the quarter to the end of June were up by 400% on a year earlier. With such strength at home, reckons Mr Liu, Legend will be ready to take on the rest of the world from about 2005.

Such a goal may seem implausible today. But that has been the story of most of Mr Liu's life. Few businessmen have had a less promising start. The son of a prominent Shanghai banker, Mr Liu found himself branded an intellectual at the start of the Cultural Revolution. In 1966 he told his classmates that the revolution was a terrible idea, and promptly spent several years doing hard labour on a farm. In the 1980s, with market reforms well under way, the government commissioned Mr Liu to distribute foreign-made computers. It took him years to persuade the Communist Party that he could manufacture computers too. Once he did, however, the cadres were so impressed that they made him a de facto spokesman for China's fledgling corporate sector.

A corporate cultural revolution

Mr Liu has spent the past decade not only competing against other PC makers but also pioneering solutions to problems that companies rarely face elsewhere. Take China's property rights. They are so hazy that it is still unclear whether Legend is a state-owned, collective, or private enterprise. Mr Liu's approach, since he listed his shares in Hong Kong in 1994, has been simply to pretend that Legend is accountable only to shareholders, with the transparency that this would suggest.

Another challenge was to introduce a set of "business ethics" since, says Mr Liu, China had none. To optimists, the way he went about this could serve as a model for China as a whole. At first, says Mr Liu, he behaved "like a kind of dictator". He yelled a lot. He sent five corrupt managers to jail. Anybody who

was late for a meeting was made to stand in silence before the group—a drastic punishment in a culture that prizes “face”, and one that Mr Liu himself accepted on three occasions.

Gradually, Legend’s culture changed, and Mr Liu began to relax his authoritarian style. Legend became the employer of choice for Chinese engineers and managers with foreign education and experience. His chief executive and heir apparent, Yang Yuanqing, is a dynamic 36-year-old. As Mr Liu puts it, “Now I just participate in discussions as an old man smiling.” Although in reality Mr Liu still calls the shots, Legend has evolved a more democratic and participatory management style, rather like that of HP.

At the same time, Legend was triumphing over its competitors. It had lower costs than the foreigners, but its biggest advantage lay in its distribution network. Mr Liu used his ties to China’s state-owned enterprises to sell them computers, and dispatched armies of retail staff throughout China to teach first-timers how to click a mouse. He could not match the Americans in R&D spending, but he made up for this in local touch. Legend, for instance, pioneered a new keyboard that made it easier to write Chinese characters. In 1997, Legend became China’s top-selling brand.

The real challenges are still to come, however. China’s market will become more competitive. Only 4% of Chinese homes—about 16m—have computers, whereas 60% of American ones do. But the homes without computers are poorer than the ones that have already bought. China’s mobile-phone operators have recently discovered the consequence: subscriber growth may continue, but revenues per user will decline. And China’s entry to the World Trade Organisation will lower what barriers remain for foreign rivals.

Mr Liu is aware of these threats. In response—like both his role model, HP, and IBM before it—he is planning to move Legend from being a mere maker of hardware to a provider of services. In June, Legend spun off its services arm (which, among other things, still distributes foreign brands) and listed its shares separately. And it teamed up with AOL Time Warner to move into Internet content.

Ultimately, Mr Liu concedes that even the Chinese market will have limits. Then Legend will have to become a true multinational and a global brand. No Chinese company has ever done this—not even the Taiwanese computer makers, such as Acer, which have been trying for years. How many of Legend’s strengths in China today—the local touch, control of distribution—would it be able to apply overseas? For Legend to topple its teachers, Mr Liu would have to beat odds that even he has not yet seen.

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Correction

Sep 13th 2001
From The Economist print edition

In two recent pieces on the auction market (see Related Items, right) we muddled our figures in the chart. The figures for the total turnover of the auction market for fine art should have been in billions of dollars, not trillions.

We also perpetuated an oft-repeated error: that Sotheby's and Christie's control more than 90% of the art auction market. In fact the two houses' combined sales account for less than half the total market. One reason for the mistake may be a confusion between fine-art sales and the art market as a whole.

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World economy

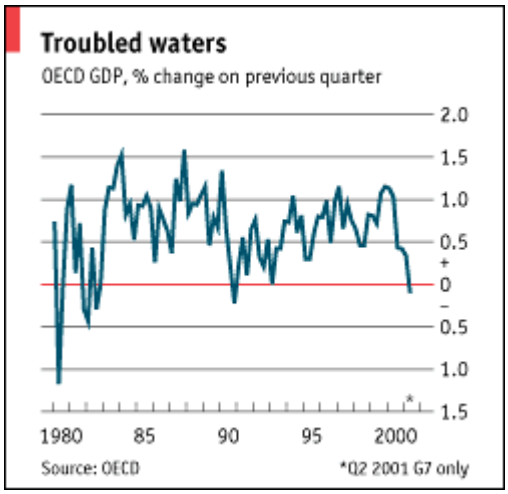
When the economy held its breath

Sep 13th 2001
From The Economist print edition

The world was already moving dangerously close to recession—and this week's terrorist attacks in America have increased the risks

THE attack on the World Trade Centre has reduced to rubble one of the most famous symbols of American capitalism. But has it also increased the risk of a collapse in an already fragile world economy? American stockmarkets were closed this week, but the immediate answer from other markets around the globe seemed to be a tentative "Yes".

For the global economy, indeed, the attack could hardly have happened at a worse time. It followed a rash of bad economic news that had already dented many financial markets. Japan's GDP fell at an annual rate of 3.2% in the second quarter of this year, and America's unemployment rate jumped by more than expected in August, to 4.9% from 4.5% in July. New figures published on September 13th confirmed that the euro-area's GDP had slowed to a virtual standstill in the second quarter. These numbers, together with the previously reported growth of 0.2% in the United States, suggest that output in the rich world as a whole fell in the second quarter for the first time since 1990 (see chart).



In short, as day broke on September 11th, both America and the world were already dangerously close to recession. Now, with everyday life disrupted for so many Americans, the country's GDP looks more likely to fall in the third quarter. In the immediate aftermath of the attack, many factories and shops were closed. Over the coming weeks, air travel in America and financial activity in New York seem sure to be reduced.

Credit Suisse First Boston estimates that the direct effect of the attacks on production will reduce America's GDP growth rate in both the third and fourth quarters by 0.8 percentage points—ie, an annualised 3%. (This assumes that air travel and the output of New York and Washington fall by 50% in what remains of the third quarter, and by 20% in the fourth quarter.) The economic impact would be more severe if oil prices, which were briefly up by $3 a barrel this week, stay high. But that depends mainly on what happens next in the Middle East, including any possible American retaliation.

CSFB's figures almost certainly exaggerate the direct impact of the attacks, not least since any lost output will partly be offset by more spending on rebuilding, security and defence. Worries about America's shrinking budget surplus are likely to be tossed aside as the government boosts spending, but this may not come through immediately. Yet far more important than the direct impact on production will be the impact on business and (especially) consumer confidence, and hence on spending.

No economic model can forecast what the effects will be. Experience from previous natural disasters, such as earthquakes, suggests that they often have less impact than was predicted at the time. But this is not a natural disaster; and there is the extra uncertainty over possible American retaliation and over what will happen when markets reopen. In the short term, a terrorist attack on this scale may make

Americans more fearful of public places (such as shopping malls) and so lead them to spend less. The longer term effect is less certain.

Most economists who believed that America could avoid recession had largely based their case on consumer spending remaining robust. Last week's fall in share prices and the news that unemployment had risen more sharply than expected seemed likely to dent that confidence. Now, the attack on Americans' very security could wreak further damage. During the Gulf war, when the economy was also stuttering on the brink of recession, consumer spending in America fell for six months at an annual rate of 2.6%. This time, with the carnage at home not abroad, the impact could be even bigger.

Households around the world are also suffering from a fall in the value of their shares. Counting this week's drop, some $11 trillion (equivalent to one-third of global GDP) has been knocked off world share prices since their peak last year. If shares continue to slide when Wall Street reopens, this is likely to hit consumer spending further.

The Federal Reserve and other central banks are likely to respond by cutting interest rates again. They have already pumped extra liquidity into the financial system, which should stop the markets seizing up. But if consumer confidence is crumbling, it may not be enough to prevent a recession. For the economy is more fragile today than it was at the time of the Fed's last emergency easing in 1998.

Further interest-rate cuts and heavier public spending on construction and defence, and possibly more tax cuts, should support the economy by next year. But the mood for the immediate future has turned distinctly gloomy. At the start of this week, most economists in investment banks were forecasting that America could avoid a recession. After the terrorist attacks, a growing number now believe that a recession is likely.

If so, America will drag much of the rest of the world down with it. The most worrying aspect of the current slowdown is that it is more synchronised around the world than at any time since the 1930s. When America went into recession in 1990-91, Japan, continental Europe and most emerging economies continued to boom. This time, though, they are all sinking together.

Japan's second-quarter GDP numbers were even more worrying than the headline figure suggests. Nominal GDP fell at an annual rate of more than 10%. The Japanese economy looks almost certain to contract again in the third quarter—at a time when recovery in the euro area is likely to be weak, at best. German industrial production and manufacturing orders fell by much more than expected in July.

America's tech slump has already taken its toll on East Asian electronics producers, pushing Taiwan, Singapore, Malaysia and Hong Kong into recession. Most of Latin America is also contracting. This raises the risk of a ricochet effect, in which a slowdown in one country leads it to reduce its imports from others, which squeezes their output, and hence their imports, magnifying the initial fall in demand.

If America and the world now suffer a recession it seems sure to be blamed on the terrorists. Economists may even use this to explain why their earlier forecasts were wrong. Yet the truth is that the world was probably heading for recession anyway.

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American financial markets

Recovery redefined

Sep 13th 2001 | NEW YORK
From The Economist print edition

The centre of global finance has been blasted, but business goes on

A phoenix will rise from the ashes

WAR is terrible, but not always because of its economic impact. The last wisps of the Great Depression were eased by the second world war, and the last great surge of the bull market began with the Gulf war. In the aftermath of this week's terrorist attacks on America, liquidity is being pumped into the system and interest-rate cuts will be accelerated. President Bush's expanded defence budget becomes more likely, with all that means for extra spending. New York city property—being dumped in ever greater amounts after the Internet crash—may now be grabbed by dispossessed downtown tenants who need space by the weekend and will welcome the Aeron chairs, high-speed connections and other flourishes installed for a new economy that never arrived.

This picture is hard to reconcile with the scene of Tuesday's disaster. The entire financial district was coated with ash so thick that it permeated the subways, forcing trains to turn off their air-conditioning as they passed below. The smoke-filled air twinkled with what appeared to be confetti but was actually sunlight reflecting off paper blown out of the twin towers.

In the aftermath of the explosion, the New York Stock Exchange declared its first multi-day closing since the 1963 assassination of President Kennedy. The Nasdaq stockmarket was also closed. The bond markets planned to reopen on September 13th, but equity markets remained shut. For employees from almost every company in lower Manhattan, there is still no indication of when they might return, nor, to a large extent, of what they might find when they do. Those who can, including the city's two major commodity exchanges, are looking to reopen elsewhere.

The World Trade Centre itself had the population of a small city and the economy of a small country. Cantor Fitzgerald, the biggest broker of American Treasury bonds, was located at the top of one of the towers, and the primary futures market for these securities was based in another building at the bottom of the centre that was also destroyed. Morgan Stanley was the single largest tenant, high in one of the towers, occupying the former headquarters of its merger partner, Dean Witter.

Other prominent companies based there included Aon and Marsh & McLennan, two of the largest insurance brokers. The offices of Brown & Wood, a law firm that acted for Merrill Lynch, were also destroyed. Along with the human devastation, troves of irreplaceable records have disappeared. And it may be some time before employees feel comfortable working in tower blocks again.

Disruption in Manhattan sent shockwaves throughout financial markets. Banks nervous about their own liquidity pushed overnight interest rates to 11% for dollars and 5.5% for euros. The Federal Reserve

called in Wall Street firms to steady their hand and the European Central Bank announced a snap auction. It lent *euro*69.3 billion ($63 billion) to euro-area banks at 4.25% to bring rates down. The Bank of Japan lent ¥2 trillion ($16.3 billion).

Most Wall Street banks with securities operations near the World Trade Centre have relocated them to "disaster recovery" sites. None of the biggest firms says that it has been unable to complete vital operations. But the proof of that will be seen only two or three days after the American markets reopen. Equity trades are settled after three days. But do the days that the markets were closed count?

The New York-based Depository Trust Clearing & Corporation (DTCC), the counterparty to most American-registered securities, said on September 12th that settlement was functioning normally, with few, if any, "exceptions" or failed trades. But when markets open fully it may be a different story. If many securities trades do fail to be completed, the parties to them may seek replacement deals, at a pernicious cost. The subsequent scramble could bring new uncertainty and volatility to an already edgy market.

Although this is by far the worst attack to hit New York's financial district, the area has been struck at least three times in the past century. J.P. Morgan's old headquarters, across the street from the NYSE, still has the scars of an anarchist attack in 1920. Each time, the New York markets recovered. They will do so again.

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The FTSE 100 index

Falling stars

Sep 13th 2001
From The Economist print edition

Some big names have been booted out of Britain's leading stockmarket index

UNDAUNTED by a one-day fall of almost 6% on September 11th, the biggest since 1987, the FTSE committee met on September 12th and decided to press ahead with its regular reshuffle of Britain's blue-chip index, the FTSE 100. This is conducted every quarter to ensure that the index represents the stockmarket's top 100 companies by market capitalisation. The committee, made up of market participants, said that the week's market movements, although they had been extreme, did not change the pattern of evictions and new entrants already expected.

In all, eight companies are to be turfed out later this month, only one short of the record changeover in March 2000 at the height of the stockmarket's love affair with the new economy. This week's reshuffle was the revenge of the old economy. All eight evictions came from the technology, media and telecoms sector that briefly dominated the index at the height of the bubble. The most spectacular fall from grace has been that of Marconi.

A diverse range of old-economy stocks are replacing the fallen stars. Utility companies such as Innogy Holdings and Severn Trent were once rated by investors as "boring". Now they are favoured for their steady stream of dividend income. Wolseley, a leading distributor of plumbing materials, supplants Marconi, whose ambition was to provide the plumbing of the Internet.

Mightily fallen

FTSE 100, companies' market capitalisation, £bn

Companies out	11th Sept 2001	7th Mar 2000	Description
Carlton Communications	1.6	5.7	Media
Misys	1.6	6.2	Software
CMG	1.5	8.1	IT services
Colt Telecom	1.1	26.7	Telecoms
Telewest	1.1	10.3	Telecoms
Energis	1.0	11	Telecoms
Spirent	1.0	2.9	IT hardware
Marconi	0.9	26.2	IT hardware
Companies in			
Friends Provident	3.4	-	Life assurance
Enterprise Oil	2.9	1.9	Oil
Wolseley	2.7	1.7	Building materials
Severn Trent	2.5	1.9	Utility
British Land	2.4	1.9	Property
Man Group	2.4	1.4	Financial services
Northern Rock	2.3	1.2	Banking
Innogy	2.2	-	Utility

Source: Thomson Financial Datastream

The eight companies leaving the index this month are not the only ones to have fallen out of favour over the past 18 months. Such companies as Baltimore Technologies, Psion and Thus have been relegated to the FTSE SmallCap division. All three of these new-economy companies have lost more than 95% of their value since their peaks last year.

Normally about three companies enter or exit the FTSE 100 every quarter. This huge reshuffle marks the closing chapter of a love affair that turned sour. It could take a long time for investors to regain their infatuation for tech shares.

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Stockmarkets

Rudderless

Sep 13th 2001 | FRANKFURT, HONG KONG AND TOKYO
From The Economist print edition

With markets in America closed, the rest of the world drifted

STOCKMARKETS in America stayed closed for much of this week. In the absence of their pole star, markets elsewhere had to steer by themselves. But they were almost unanimous in the direction to take: first down and then, albeit hesitantly, up. Derivatives markets suggest that the American stockmarkets, too, are likely to fall when they reopen.

All eyes on America

In Europe, prices fell sharply immediately after the terrorist attacks. Germany's blue-chip DAX 30 index lost more than 8% on September 11th, touching its lowest level for almost three years; France's CAC 40 fell by more than 7%; and London's FTSE 100 (see article) fell by 5.7%, after being strongly up earlier in the day.

On September 11th, however, European markets regained some (though by no means all) of their previous day's losses. All European financial markets stayed open, though with some interruptions. The Frankfurt exchange closed 45 minutes early on September 11th and suspended trading in American stocks.

In Japan, the disaster sent the leading market indices tumbling simultaneously below psychologically significant levels. The benchmark Nikkei 225, which has been reaching fresh lows almost every week recently, fell by 6.6%, to close below 10,000 for the first time in over 17 years, while the Topix index, which covers a wider range of stocks, fell by 6.4% to below 1,000. Both recovered (slightly) the following day.

To reduce the risk of panic, the Tokyo Stock Exchange opened half an hour later than usual and halved the limits placed on daily stock-price movements. On the Nikkei futures market in Osaka, where such limits were not imposed, the market fell more steeply. The September Nikkei futures contract dropped by almost 10%.

Elsewhere in Asia, the markets fell to levels not seen for several years. Hong Kong fell by 8.9% to its lowest level for two years. After it had postponed its market opening, South Korea fell even further (down 12.0%) to its lowest level in almost three years. Some markets, such as Bangkok, decided not to open at all, the first time the Thai market has been closed since its inception in 1975.

The foreign-exchange markets remained open in theory; but in practice they too were grounded, as traders worried whether their counterparties in America would be in a position to settle trades that they might make. Both market participants and regulators took comfort from the fact that the money-transmission and payments systems throughout America continued to operate normally throughout the week, but this did not lure many traders into taking new positions.

In what foreign-exchange trading there was, currencies rose a little against the dollar, but on very small volumes. The rise of the yen and uncertainty about the American economy hit shares in Japanese exporters hard—including such giants as Sony and Toyota. Airline stocks fell everywhere. In Europe, the price of Lufthansa, the German national airline, dived by 14% on the day, while the more American-dependent British Airways fell by over 20%. In Asia, Cathay Pacific fell by 19% on the day after the attack and Singapore Airlines by 15%.

Japanese bank shares also slumped amid growing concern that falling stockmarkets would damage their balance sheets further. New accounting rules demand that they start valuing their equity portfolios at market value at the end of this month, which could constrain their ability to pay dividends out of retained earnings. Should they fail to do this, the government has the right to convert into voting shares the paper it took in return for its injection of public funds into the banking system a couple of years ago. That way some banks could, in effect, be nationalised—partly as a result of the terrorist assaults.

The shock waves from this week's attacks rippled ever more widely. Not surprisingly, insurers were especially badly hit, particularly reinsurers (see article). The two biggest, Munich Re and Swiss Re, were down by 16% and 17% respectively on the day. Munich Re reckoned that it might lose as much as *euro*1 billion ($907m). Swiss Re said that a "first and very rough estimation" put its losses on a par with the 1999 European winter storms, which cost it SFr1.2 billion ($840m).

Hard hit too were businesses that were merely hoping to do business with insurers. So Hyundai Securities, for example, fell on fears that its potential partner, AIG, a big American insurance company, would face such heavy claims that it would be forced to delay the deal. The waves from the World Trade Centre have not stopped rippling yet.

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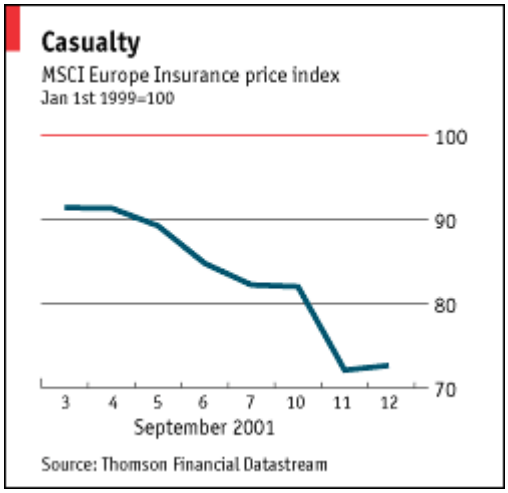
Insurance

The biggest bill of all

Sep 13th 2001 | LONDON AND NEW YORK
From The Economist print edition

For insurers, this is the biggest man-made disaster ever

EVER since the World Trade Centre was bombed in 1993, the consortium that runs the buildings had wanted to get together to consider how to react to a further terrorist attack. The consortium finally agreed to a meeting, and it was fixed for September 11th, in one of the centre's towers. But the meeting, luckily for them, was cancelled. That day witnessed the largest man-made disaster that the insurance industry has ever faced.



Most companies occupied themselves first and foremost with the survival of their employees who were working in the buildings. Aon, Guy Carpenter and Royal & Sun Alliance are just a few of the insurance firms that had offices there. It will take some time to assess the full scale of the damage done, both to their staff and their balance sheets. Investors, though, reacted immediately as though the disaster will be a severe blow to the whole industry.

Estimates of the total bill are tentative at best, ranging from $10 billion to as high as $70 billion. Numbers like those would put the attack in the same league as the worst-ever natural disaster in history, Hurricane Andrew, which cost the industry almost $20 billion in 1992. Lloyd's of London, the insurance market, took several days to come up with a statement on the possible damage to its members, and it has not yet come up with any numbers. Many of those who worked in the World Trade Centre had large individual policies, as well as being insured under corporate plans for key personnel. Moreover, the companies housed in the massive complex know how to pursue a claim.

Whether insurance companies buckle under the weight of those claims will depend on how sensible they have been about their exposure to any single source of risk. Insurance companies that sell policies to individuals and companies in turn insure themselves with reinsurance companies to avoid losses beyond a certain limit. The more that the liability for the billions of dollars of claims from this week's disaster can be spread among different insurers and reinsurers, the better. Industry representatives are also hoping that, if things get really desperate, the American government will come to the rescue (it will have to pay for the Pentagon, since like all government property it was uninsured).

Some insurance companies may also argue that the terrorist nature of the attack on the World Trade Centre protects them. In Britain, following IRA bomb attacks, the insurance industry changed its contracts so that companies seeking protection against terrorism have to pay an extra premium. In America, most insurance contracts include terrorist acts as a matter of course. But because of the earlier bombing, the World Trade Centre became a likely future target. Some analysts are therefore wondering whether some contracts will have excluded terrorism. There is also speculation that only one of the two towers was covered, as a double collapse was considered so unlikely.

As long as the leading firms have managed their risk properly, the industry should be able to absorb this hit, notwithstanding a few collapses of small firms. Indeed, analysts point out that the reinsurance industry may benefit in the longer term. Already, reinsurance pricing has been rising as capital has become scarcer in the industry, due to falls in the value of shares and large payouts on asbestos claims and storms. The World Trade Centre attack is likely to create more demand for reinsurance. Reinsurers will take a big one-time hit, concludes William Hawkins, an analyst at Fox-Pitt, Kelton in London, "but they will be left standing in a market that is going the right way."

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Oil prices

Uncharted waters

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From The Economist print edition

The oil market is unpredictable. It was last week, and it still is

IMMEDIATELY after this week's terrorist attacks, oil prices shot up. Trading on London's International Petroleum Exchange (the New York Mercantile Exchange, next to the World Trade Centre, was closed) pushed the price of Brent crude futures briefly above $30 a barrel on September 11th. Given the retaliatory strike sure to come from America, went the argument, some supply disruption must be on the cards. After all, the Gulf war of a decade ago pushed up prices sharply.

Perhaps. But that same example explains why there is just as much risk of oil prices falling soon—as they did after Saddam Hussein was kicked out of Kuwait. The countries that President Bush's father saved from Iraqi clutches, Kuwait and Saudi Arabia, are now America's close allies. They rushed to condemn this week's attacks and to offer assurances that they will compensate for any disruption. That is no idle boast: Alex Sieminski of Deutsche Bank Alex Brown, estimates that the Saudis alone can increase output by 2.5m barrels a day in less than three months.

Another lesson that the cartel has learned from history is that oil shocks impose more economic pain on its own members than on consumers. That explains why Ali Rodriguez, OPEC's secretary-general, rushed to make it clear that the cartel will not use oil as a "weapon". Even Iran and Libya, usually rabidly anti-American, have offered sympathies.

Then there is the weakness of the world economy. Even before this week, pundits were concerned that anaemic growth, especially in America, was dragging down oil demand. Mr Sieminski calculates that every 1% loss in expected global GDP growth reduces oil demand by about 400,000 barrels a day.

One immediate impact will be felt in the aviation-fuels business, which makes up nearly 10% of America's oil consumption. The grounding of all flights following the hijackings will prove painful enough, but a bigger impact may come from the knock-on effect on future air travel.

How will oil traders make sense of all this? Even veterans like Peter Gignoux of Schroder Salomon Smith Barney do not know. He reckons that many traders, except those with a need for physical deliveries of oil in the near term, may stay clear of the market: "There are no particular rules to this game any more...nobody knows what to expect."

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Gold

Fingered?

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From The Economist print edition

Gold has lost its glitter. Is there a conspiracy afoot?

LONG considered the ultimate hard asset, gold normally shines at times of financial turmoil. This week, if any, should therefore have been gold's time to take up its traditional role as asset of last resort. But its performance was less than glittering (see chart). Could it be that its days as a safe haven are over? Or is there, as some believe, a conspiracy to keep it cheap?

Despite dire talk of recession and retaliation, gold rose by only 6% on September 11th, and it then lost nearly half that gain the following day. Bid-ask spreads widened to more than ten times their normal size, underscoring the lack of confidence in the metal. Philip Klapwijk of GFMS, a precious-metals consultancy in London, thinks that the gold price would be well above $300 if the market had responded to turmoil the way it did ten years ago.

Some of the lack of interest can be put down to a shortage of liquidity as Comex, the New York futures exchange that is near the World Trade Centre, closed early on the morning of September 11th. But even when the Bank of England went ahead with its 20-tonne gold auction on September 12th, prices were barely higher than in previous weeks. The gold price may yet soar. But, given the decline in equity markets provoked by the grim outlook for rich economies, gold has not provided the shelter that its fans expected of it.

Most gold experts see nothing more sinister in the low gold price than weak demand. In the past ten years, gold has shown precious little response to macroeconomic or political news of any kind. It has been dependent mostly on consumer and industrial needs.

Gold-conspiracy theorists, however, will have none of this. They have been claiming for a while that rich-country governments are keeping the gold price below $300 an ounce by lending masses of gold secretly to big banks. Some even argue that this gold-price "strategy" is based on an academic paper published in 1988 by no less a person than former American Treasury secretary, Larry Summers.

Giacomo Panizzutti, head of foreign exchange and gold at the Bank for International Settlements (BIS), estimates that central banks worldwide have lent no more than 4,700 tonnes of gold to the market. The figure, published in *The Alchemist*, the London Bullion Market Association's quarterly, is about one-third of the amount estimated by GATA (the Gold Anti-Trust Action Committee) based in Dallas, Texas. GATA says it has uncovered evidence that the American government, assisted by others, has somehow "lent" thousands of tonnes to speculators and bullion banks, notably Citibank and J.P. Morgan Chase, to depress the gold price.

GATA's website supports a court case filed in Boston by Reginald Howe, a gold consultant, against Alan Greenspan, chairman of the US Federal Reserve, Mr Summers, the BIS and several big banks. Mr Howe accuses them of conspiring to fix the gold price. Few of the great and good appear to be taking the accusations seriously, hoping perhaps that the case will be thrown out at a hearing next month.

For the record, Mr Summers's 1988 paper argued that if the nominal gold price can be "pegged by the authorities", other asset prices will rise. GATA argues that this is precisely what Mr Summers did while in office under President Clinton, buoying American asset prices at the expense of poor gold-producing

countries.

Gold bugs are smarting because, this week's blip notwithstanding, the gold price continues its slow decline—which can easily be explained without a conspiracy theory. Mining has become more efficient; most governments want to reduce gold as part of their reserves; and, short of reviving the practice of burying princes complete with their gold hoards, the stock of gold does not diminish.

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Publication ethics

Truth or consequences

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Biomedical journals are agitating about the risks of corporate money corrupting peer review. They should worry about a lot more than that

SOME of the most powerful words in print today are those in journals of biomedical research, for they can literally wield the power of life and death over future patients. If published clinical trials establish a drug's safety and efficacy, doctors will eventually prescribe it. If not, it will be relegated to the laboratory's hazardous-waste basket. Ensuring the accurate reporting of such trials is therefore a matter of some importance.

Unfortunately, maintaining the integrity of this sort of science seems to be getting ever more difficult. To select and revise promising papers, journal editors have long relied on the process of peer review, in which a manuscript is sent out for criticism to several experts in the field. If peer review is to work, each party must fulfil its side of the bargain. First, authors must genuinely have done the things they claim to have done, and written the documents they claim to have written. Second, reviewers must show that they are able to assess the research as objectively as possible.

It appears that, in too many cases, neither side of the bargain is being kept. This weekend, several hundred researchers and medical journalists are supposed to be gathering in Barcelona for a conference organised by the World Association of Medical Editors on the effects of peer review on biomedical research. Some of the findings to be presented are damning of researchers, of reviewers and of journals themselves. Although, to their credit, editors of medical journals are seizing every opportunity to tighten the reins of control over biomedical research, many of the problems defy any quick fix.

Quis custodiet ipsos custodes?

The issue topping the editorial agenda is the honesty of research that is sponsored by drug companies to test the safety of their wares. These companies have found that scientists at private contract-research firms can perform drug trials far more cheaply than the academic researchers who have traditionally been drafted in for this job. Such firms drew 60% of the research funds spent by drug companies last year; academic scientists were left scrabbling for the rest.

Unfortunately, the companies are saving more than money by using such hired guns; they are also saving face. Through the use of restrictive research agreements, drug companies often ensure that only favourable results are published. In some cases, they not only retain the right to suppress publication of results, they also deny the authors of papers about such studies access to full sets of study data.

In the face of this, such authors cannot give honest accounts of the research; nor can editors and reviewers make honest appraisals of the results. This week, the editors of 13 top medical journals issued a statement condemning such abuses of corporate sponsorship. The members of the International Committee of Medical Journal Editors (ICMJE) will now revise their publication guidelines to require that researchers disclose their sponsors' involvement to editors when they submit articles. Some editors will require researchers to certify that they take responsibility for how the trial they are reporting was conducted. And authors may be asked to declare that they had access to all trial data, and had the power to decide whether or not to publish the trials' results.

In a sense, these rules are formal demands for things that ought to be taken for granted. But, as a paper due to be presented at Barcelona demonstrates, it is not even clear that authors pay enough attention to the existing ICMJE guidelines, let alone that they will be willing to abide by extra ones.

The existing guidelines state that people on a paper's author list should have contributed, at the very least, to the conception of a study, the analysis of the data and the writing of the manuscript. Yet, when Susan van Rooyen and Sandra Goldbeck-Wood of the *British Medical Journal* and Fiona Godlee of BioMed Central, a database of scientific abstracts, analysed 129 research articles submitted to the *BMJ* by 588 authors, they found that this was not always the case. Depending on how strictly they interpreted the ICMJE guidelines, between 24% and 71% of authors qualified—hardly a stellar performance.

Richard Horton, the editor of the *Lancet*, took an even looser definition of authorship. He studied a small sample of research papers to find out if the views expressed in those articles were accurate representations of contributors' opinions—a basic enough requirement, one might think. He examined in detail five papers published in the *Lancet* last year, and found that contributors disagreed about almost everything, including a paper's key findings, weaknesses, implications and future prospects.

That may not surprise anybody who has ever worked on a team project. Dr Horton, however, also sniffed out a more disturbing trend. The contributor who stood to gain the most credit from a publication would often erase from the final report the weaknesses acknowledged by co-contributors. A research paper rarely represents the opinions of all the scientists whose work it reports, Dr Horton concludes.

Ideally, the “suppressed opinion, censored criticism and serious bias” among contributors found by Dr Horton would be corrected by the unfettered opinions and criticism offered by unbiased reviewers. But authors may obstruct reviewers' judgments by leaving out important information about their results, such as details of other similar trials. According to research conducted by the Cochrane Collaboration, an international group that studies clinical trials, reviewers do not seem to be up to catching these omissions. Indeed they may be getting worse at their task.

In May 1997, a group of Cochrane researchers, led by Iain Chalmers, investigated whether reports of trials published in the five top medical journals adequately outlined research on other relevant trials, by studying one month's worth of reports. Almost none of the 26 reports passed the test. This year, the team repeated the procedure, using the 33 trials published by these five journals in May. None of the trials put its findings in the context of earlier trials. Four reports falsely stated that they were the first published trial on a particular topic. Six more kept mum about related trials. Dr Chalmers and his colleagues find that the situation has deteriorated in the past four years.

This is strong stuff. But it may get worse. Phil Alderson and his colleagues performed a “meta-analysis” of editorial peer review—that is, they used published studies as their data, and applied statistical methods to the outcomes of those studies, as though each study were a single experimental result. They looked at the effects of peer review on various criteria, including methodological soundness, completeness and accuracy.

Although journal editors go to great pains to ensure that authors do not know the identity of their reviewers, or vice versa, the researchers found that this laborious and expensive process had little impact on the reviewers' appraisals of quality of research. When they surveyed the sum of research on peer review, they found only scattered empirical evidence supporting the use of editorial peer review as a mechanism to ensure quality of biomedical research. Until better studies are conducted, peer review may need to undergo more, well, peer review.

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Solar science

Sun-seekers

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Understanding of the earth's nearest star is advancing rapidly

EARLIER this year, a giant solar flare ejected about ten billion tonnes of plasma (hot, electrically charged gas) in an earthward direction at an unfriendly speed of 700-800km a second. The full force of the storm arrived over the Atlantic, and so did no damage. If it had hit an inhabited area, though, it could have wrecked local power supplies. In 1989, a similar event blacked out much of Quebec's power grid.

Such flares are symptoms of greater than average solar activity. Indeed, at the recent peak of its 11-year cycle, the sun's battering of the earth's protective magnetic boundaries with smaller versions of such flares caused the aurora borealis (northern lights) to appear as far south as the border between Texas and Mexico. Yet, curiously for an object on which so much depends, from climate to photosynthesis, scientists are only just starting to find answers to many of the fundamental questions about how the sun works.

A lot of hot air

Most of the advances in solar science in recent years have come from a technique called helioseismology. On earth, seismology (the study of earthquake waves) is used to probe the planet's interior by measuring the reflection and refraction of those waves by the layers of rock involved. The same can be done with the sun, although the layers involved are gaseous, rather than solid or liquid. Detailed examination of the ripple patterns created on the sun's visible surface (known as the photosphere) by sound waves bouncing around its interior reveals both the sun's underlying structure and the nature of events on the side facing away from the earth.

Although helioseismology was invented more than 25 years ago, the technique has come into its own only in the past few years, with the launch of the Solar Heliospheric Observatory, SOHO, in 1995. This spacecraft is run jointly by the European and American space agencies, ESA and NASA. By linking its observations with those of a network of ground-based telescopes located at different longitudes around the earth, SOHO's controllers have been able to conduct continuous solar observation, rather than merely taking snapshots. That is important, according to Craig DeForest, a solar physicist at Southwest Research Institute in Boulder, Colorado, because on the sun interesting things often happen in the course of a few hours.

Helioseismology has, for example, allowed sunspots—which are frequently harbingers of violent activity—to be seen developing on the sun's far side. Before such observations were possible, space-weather watchers were often surprised when active regions appeared from behind the sun as it rotated around its axis every four days or so.

Helioseismology has also been used to probe below the surface. Art Poland, a former project scientist for SOHO at NASA's Goddard Space Flight Centre in Greenbelt, Maryland, says that seeing the speed of movement of hot gas inside the sun has revealed a thick “shear” region about one-third of the way down. It is as if the peel of an orange were moving separately from the rest of the fruit.

The sun now available in Technicolor

Outside this shear zone, gases are travelling much faster at the equator than at the poles. The boundary between the zippy equatorial gas and the sluggish poleward flow is a region of turbulence which, since the gas is a plasma, creates electrical currents. What researchers would dearly love to know is how this effect creates the strange patterns of activity observed by SOHO in the sun's magnetism.

Magnetic carpet

Unlike the earth's, which has single north and south magnetic poles, the sun's magnetic field, SOHO has discovered, is hugely variable. The star's surface is covered with patches of north- and south-polar magnetism. This patchy pattern has been dubbed the magnetic carpet. The patches are thousands of times the size of the earth, and the carpet is in constant flux, regenerating itself every 48 hours or so.

The solar wind—the constant breeze of charged particles that flows from the sun's surface, even when there are no storms—carries these mis-shapen magnetic fields far into the solar system. When they reach earth, usually alongside hot plasma, they interact with the earth's own magnetic field—the protective magnetic bubble known as the magnetosphere. When especially large flares, known as coronal mass ejections (CMEs), occur, it is the magnetosphere that protects the earth from heavy bombardment.

The cause of CMEs is still uncertain. But in 1999, researchers using *Yohkoh*, a Japanese spacecraft, showed that certain S-shaped structures often appeared on the sun's photosphere just before a large ejection of matter. This phenomenon, known as “S marks the spot”, has helped space-weather watchers to improve the accuracy of their predictions of solar storms. Many details, however, are still missing, and it is still impossible to predict reliably when and where a flare will occur, or how big it will be. Nicky Fox, a science co-ordinator at Goddard, says that what is needed is more knowledge of the magnetic structure of material as it leaves the sun, since that determines how the earth is likely to be affected by it.

Another fundamental puzzle of solar astronomy, according to Dr DeForest, is the source of the solar corona's heat. The corona—the sun's outer layer, above the photosphere—has a temperature of 1m°C. That is 300 times the temperature of the photosphere. Usually, temperature falls with distance from a heat source (in this case, the nuclear furnace at the sun's core, which has a temperature of 15m°C). Somehow, therefore, energy is being concentrated in the corona—probably by some sort of magnetic excitation, though the details are controversial.

That may be mainly of academic interest. But solar activity can have a strong impact on the earth. Although the effect of space weather is often overstated, it can disrupt power grids, communications satellites and short-wave radio. America's National Oceanic and Atmospheric Administration (one of NASA's sister agencies) already has a rudimentary solar-flare warning system for power companies, but better predictions of how and when such storms are going to hit the earth would be valuable. And, as transistors in satellites become smaller, the risks of destruction from a single charged particle ejected in a flare increase.

Dawn tomorrow

Answering questions about the sun will become still easier soon, as other recent probes report. One such mission is Cluster, a set of four ESA spacecraft that fly in synchrony in and out of the magnetosphere. In the past few weeks, this mission has revealed that the outer regions of the magnetosphere are rocked by a continuous series of rippling waves that resemble the long, swelling waves on an ocean.

Ulysses is another joint endeavour by ESA and NASA. It is designed to look in more detail at high solar

latitudes and the regions of space affected by them (existing solar probes operate in the plane of the sun's equator). NASA's Transition Region and Coronal Explorer (TRACE), by contrast, will explore the three-dimensional magnetic structures that emerge through the photosphere, and will work out the shape and dynamics of the upper solar atmosphere. This craft has already observed immense loops of coronal gas vibrating and snapping wildly on the sun's surface. NASA's Advanced Composition Explorer craft sits at the gravitational equilibrium point between the earth and the sun, and measures the solar wind—giving an hour's warning of approaching storms. And NASA's recently launched *Genesis* probe is designed to collect pieces of the solar wind to find out exactly what particles it is made from.

Japan's space agency, meanwhile, is planning to fly a mission called Solar-B in 2005, to observe how magnetic fields on the sun's surface interact with the corona and thus, with luck, solve the mystery of the corona's enormous temperature. It might even reduce your chance of suffering a power blackout.

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Festival films

Jeux d'artifice

Sep 13th 2001 | VENICE
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Special effects and artificial intelligence are not the only things to see at the movies. Many of the best new films are flaunting intelligent artifice

THE jury at the Venice film festival sent its awards far and wide this year, to India, Iran, Mexico, Hong Kong and Slovenia, as well as to France, Italy, Germany and Austria. The Golden Lion went to Mira Nair's "Monsoon Wedding", a prenuptial romp through the lives of too many relatives brought together for an arranged marriage. Despite its carnival atmosphere, the film was a third-best compromise. The president of the jury, Nanni Moretti, who won the Golden Palm in Cannes for "The Son's Room" earlier this year, was said to favour "Secret Ballot", a sardonic Iranian comedy by Babak Payami about a female official trying to persuade a group of largely illiterate islanders to vote. Others backed Ulrich Seidl's "Dog Days", which depicts a collection of bloated Viennese housewives feuding in a heatwave. Both won lesser prizes, but Mr Moretti's face at the awards ceremony seemed a study in "Don't blame me—I'm only the president".

Some winners were clearly worthy. Other, better films slipped past unrewarded, as often happens at film festivals. Ken Loach's fine rail-privatisation drama, "The Navigators", was one example. And some of the most innovative pictures weren't even in the competition at all.

What particularly marked many entries was their directors' willingness, like diligent maths students, to show their films' workings in the margin. Richard Rogers's buildings are famous for revealing pipework that is usually kept hidden. Self-consciously intellectual film makers such as Jean-Luc Godard have sometimes done the same. Film makers usually use special effects to achieve super-realism; not so in Venice, although Steven Spielberg's "AI, Artificial Intelligence", a hi-tech "Pinocchio" for the MTV generation, which had already done poorly in America, was an exception.

Instead, the most original films here seemed to be reacting against this computer-generated illusion, even if at the same time they were careful to keep reminding viewers that what they were watching was not reality but a careful, costly construct. Of these, the most extreme example was "Waking Life" by a 41-year-old Texan, Richard Linklater. Essentially this is a documentary about life, death and the universe. What marks it out, though, is its appearance. Originally filmed with live actors, it was then "painted" by a team of computer artists to look like a broad-brush animated feature, as in Japanese *manga* films. To show that he has other skills too, Mr Linklater also screened "Tape", a tense, claustrophobic drama taken from Stephen Belber's one-act play about former high-school friends sparring over a girl. This also used new technology. It was shot in sequence, in a single hotel room, on digital video tape.

Even a film as seemingly conventional as Clare Peploe's adaptation of Marivaux's “The Triumph of Love” winked at a modern audience. It is an 18th-century extravaganza of love, deception and cross-dressing, starring Mira Sorvino and Ben Kingsley, set in a magnificent garden. But twice the camera drew back to reveal modern spectators enjoying the show.

Though self conscious, it barely jarred in a genre as artificial as this. No genre is more artificial than opera, and a new film of Puccini's “Tosca” stood up equally well to a rent in the fabric of illusion. In a famous performance of this opera, the heroine, having thrown herself from the Castel Sant'Angelo, bounced fleetingly back into view. In Benoît Jacquot's magnificent new film, which was screened in Venice out of competition, Angela Gheorghiu, Roberto Alagna and Ruggero Raimondi (a blood-curdling Scarpia) mimed to their own voices, sometimes inaccurately and sometimes with closed lips when the aria was telling their thoughts. Other passages showed the Covent Garden orchestra and chorus in greyish black and white. The result, with its double focus on art and artifice, was quite compelling.

Venice's most distinguished visitor this year was Eric Rohmer, an 81-year-old French director who was awarded a Golden Lion for a lifetime's contribution to cinema. He also took part, lean and shy as ever, in a discussion of his work and brought along his 23rd feature film, “The Lady and the Duke” (see picture above), which proved something of a surprise to all those who had been expecting another sparkling tale of tentative young love.

Like “The Marquise of O” and “Perceval le Gallois”, this is a period picture, based on the life of Grace Elliott, a consort of the future George IV and later of the Duke of Orleans. She wrote memoirs of both the French revolution and the Terror. Lucy Russell plays Grace with a charming and sometimes exaggerated English accent: her dialogues with Jean-Claude Dreyfus as the duke are miracles of *marivaudage*. The exterior scenes, meanwhile, look as if they take place in 18th-century paintings of Paris. In fact, they were shot separately on video and then keyed into 37 pastiche painted backgrounds. Mr Rohmer has been attacked in France for latter-day royalism. But, in its artifice at least, his film is revolutionary.

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Indian films

Fast food

Sep 13th 2001
From The Economist print edition

Bollywood: The Indian Cinema Story.
By Nasreen Munni Kabir.
Channel 4 Books; 230 pages; £12.99

MIRA NAIR'S Venice festival success, “Monsoon Wedding”, will focus attention on all Indian cinema. Well over 100 films are made every year in Bollywood—the kitsch moniker that survived Bombay's rechristening as Mumbai in 1996. Most of these pictures are as basic as the simplest Hollywood blockbuster. As Shah Rukh Khan, one of Bollywood's biggest stars, says, his overriding aim is to get audiences to “laugh, cry, sing, dance”, not to think.

Nasreen Munni Kabir argues in “Bollywood: The Indian Cinema Story”, that it was not always thus. Back in the 1950s film makers such as Mehboob Khan, Raj Kapoor and Guru Dutt rode on a wave of intellectual dynamism that had been whipped up by the raising of the Indian flag at independence. These directors were happy to take on realistic themes, such as caste, morality and the place of women in a fast-changing world, and they were lucky to draw on the acting talents of Dev Anand and Dilip Kumar, not to mention the singing voice of Lata Mangeshkar, who went on to become the world's most prolific recording artist. Films such as Mr Khan's “Mother India”, the story of a courageous village woman, played by the much-loved Nargis, are infused with subtlety as well as charm.

Generally, though, Bollywood has rarely tried to appropriate the artistic respectability so deservedly conferred on other Indian film makers, such as Satyajit Ray and Ritwik Ghatak, both of whom come from Mumbai's self-consciously intellectual alter ego, Kolkata. As Ms Kabir wisely recognises, Bollywood is most interesting when it is looked at as a reflection, and refraction, of Indian society, rather than as an end in itself.

The prominence of Muslims in the industry's hierarchy is testament to Bollywood's continued adherence to pluralist ideals that are often ignored in the polarised India of today. But it is not in film makers' interest to offend against tradition. Bollywood may like to think that it influences society, and perhaps it does sometimes, but more often it is merely following in society's steps.

Take, for example, the old stock characters. In the socialist India of the 1950s, villains were often portrayed as exploitative landlords or industrialists. More recently, as Indians have embraced the free market and lost their old respect for officialdom, baddies are more often bent policemen or corrupt politicians. Equally, as Indian women have started to adopt western mores, so you now see Bollywood heroines smoking cigarettes and wearing short skirts, attributes that would at one time only have been associated with that other stock character, the vamp.

For all Bollywood's vibrancy, the message of Ms Kabir's book is a dispiriting one: who dares often loses. Shabana Azmi, one of the rare actresses to have lent depth to female roles, remembers being warned not to take the part of an adulteress. The new starlets are more likely to be beauty pageant queens than drama school graduates. Nor, for that matter, have Bollywood's liberals, whatever their religion, noticeably stood up to the recent Hindu revivalism.

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Animal conservation in Africa

Babar's battles

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ELEPHANTS share many characteristics with humans. They live in close-knit families, they feel keenly about their dead, they are highly intelligent and in front of a mirror will recognise their own image. None of that, though, has stopped man from killing his sentient friend. Elephants have been hunted since palaeolithic times. They were used in warfare as an early form of tank, hamstrung by the *elephantomachoi*—the elephant hunters of ancient Egypt—slaughtered in the arena by the Romans and culled to furnish King Solomon with a throne of ivory, "the like of which had never been seen in any kingdom". With varying degrees of intensity, they have been killed since the 1970s to provide Japanese buyers with status symbols made of ivory. With such a past, what hope has the elephant for the future?

As an insight into modern Africa, Martin Meredith's popular historical account may come to be seen in the same class as Alan Moorehead's "The White Nile". Taking as a starting point the first scientific studies of wild elephants that were conducted in the 1960s, Mr Meredith draws elegantly from ancient historical texts, accounts of 19th-century ivory traders and the work of a new breed of scientists who are articulate lobbyists against the ivory trade as well as ecologists and animal behaviourists. His story is both sad and shaming. Africa's elephant population has dwindled by more than half since the 1970s, and the underlying message of Mr Meredith's book is that if man cannot save the elephant, what chance has he, in the end, of saving himself?

Africa's Elephant
By Martin Meredith

Hodder & Stoughton; 288 pages; £14.99

Buy it at
Amazon.co.uk

Wildlife Wars: My Fight to Save Africa's Natural Treasures
By Richard E. Leakey and Virginia Morell

St Martin's Press; 352 pages; $25.95. Macmillan; £20

Buy it at
Amazon.com
Amazon.co.uk

In 1989, 18 years after the modern slaughter of the African elephant began in earnest, Richard Leakey strode on to the stage. His gritty insider's view, "Wildlife Wars", shows what it really takes to try and save elephant populations and keep your head when all about you are losing theirs.

As a well-known palaeoanthropologist and the director of the National Museums of Kenya, Mr Leakey was unexpectedly appointed to head the Kenya Wildlife Service (KWS) at a time when the elephant faced its greatest threat from the ivory trade since the 19th century. Mr Leakey is a proud African nationalist with all the virtues of a Victorian pioneer. Part zealot, part soldier, he was transformed from a civilian into a warrior for wildlife.

He was determined that he could stop the corruption that was (and is) endemic to Kenya, while at the same time raising hundreds of millions of dollars for the cause and defeating the elephant poachers in the field. In the early years, Mr Leakey achieved a great deal. Hugely self-confident, he managed to turn around the corrupt service and engineered some remarkable reforms. As a first stop, he blocked the sale of nearly 13 tonnes of ivory tusks that had been captured from poachers and persuaded President Daniel arap Moi to put a torch to the pile instead. The conflagration made the front page of papers across the world and persuaded outsiders that Kenya was wholly committed to stopping the elephant poaching. It also put Kenya at the vanguard of a movement to ban the ivory trade. When the ban was internationally approved in 1990, against heavy opposition from South Africa and Zimbabwe, the price of ivory collapsed from $100 a kilo to $5 virtually overnight.

Foreign donors became happy to pledge new funds to Kenya's wildlife, especially when they saw Mr Leakey build a modern management structure to run the parks and raise morale among the front-line rangers whose job it was to patrol the reserves and fight the poaching on the ground. But Kenyan politics are rough, and Mr Leakey's honeymoon soon came to an end. A plan to hire a small number of Kenyans on an expatriate salary scale, though it helped him lure the best people to KWS, quickly upset the rest of

the workforce. His battles with corrupt colleagues proved too hard, and he was soon unjustly accused of tribalism and of loving elephants more than people. At the same time, a small plane he was piloting suffered engine failure. While Mr Leakey saved the lives of his passengers, his feet were so badly damaged in the crash in June 1993 that he had to have both legs amputated. When he realised he had lost the president's trust, he resigned. But Mr Leakey's story did not end there. After a spell dabbling in opposition politics, he was briefly again director of KWS before becoming the head of the Kenya civil service.

“Wildlife Wars” is a very personal book. Mr Leakey's judgments of his professional rivals are rarely objective, and it comes as no surprise that the book's subtitle starts with the words “My Fight...”. There are touching moments, though. Mary Leakey, his brilliant yet often critical mother, surprised him early on when she told him that “finding fossils simply can't compare with saving the elephants”. Later, what he learned about the close loyalties of elephant families sustained him through his troubles.

Virginia Morrell, whose biography of the Leakey family, “Ancestral Passions”, came out in 1995, has refashioned Mr Leakey's usually workaday prose into a fine and imposing narrative of a heroic life in a continent all too short of heroes, black or white. Though marred by too many typographical errors and erroneous captions, “Wildlife Wars” reminds us forcibly of Mr Leakey's lasting legacy—that he stopped the elephant poaching and demonstrated that reform is possible in Africa.

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A French literary row

Sex: the rough guide

Sep 13th 2001
From The Economist print edition

Plateforme
By Michel Houellebecq

Flammarion; 370 pages; FFr131.20

Buy it at
Amazon.fr

A POSTURING and cynical self-publicist? Or poet-turned-pornographer? In grabbing the headlines that have made his third novel an instant bestseller in France, Michel Houellebecq is an easy target for such accusations. After all, in “Plateforme” he devotes a great many pages to sexual tourism in Thailand and Cuba—and does so less to denounce it than in celebration. Similarly, he has courted Salman Rushdie-like notoriety both with the book's dismissive critique of Islam and with a subsequent magazine interview in which he described Islam as “stupid” and “dangerous”. Perhaps, say his detractors, all this is a mite contrived, a ploy for a serious and talented writer to attract readers and make some money.

A plausible alternative view is that Mr Houellebecq, whose previous novel, “Les Particules élémentaires” (Elementary Particles), embraced eugenics, bravely ventures where others prefer not to go, and does so with a sharp intelligence. Certainly “Plateforme”, on one level, is a page-turning account of sexual activity in all its variety. But on another it is a scathing literary attack on free trade and that cultural bugbear in France, globalisation. “For myself,” says the narrator, Michel, a 40-year-old employee of the French ministry of culture, “I can see no objection to sex entering the market economy. There are plenty of ways of obtaining money, honest or dishonest, by intelligence or by brute force.” So why not by sex, with the beautiful of the third world selling their bodies to European tourists happy to pay to escape the stresses of the rich world?

To this Mr Houellebecq adds another level. He insists his novel is also a love story. Somewhat to his own surprise, Michel, the unmarried civil servant who has hitherto satisfied his sexual needs in Paris by visiting peep shows and massage parlours, becomes the partner of Valérie, a 27-year-old career woman whom he meets on a package tour to Thailand. For Michel (and, it seems, for the author as well), Valérie is a rare western woman capable of giving love and of associating desire with pleasure; few others seem able to abandon themselves to pleasure. Doubtless all this will be taken as further evidence for those who think that, in the end, Mr Houellebecq is simply a clever misogynist.

A stronger criticism of his love story is that Michel is too bleak and detached a character to be convincingly in love. Michel's remoteness is not the result of the tragedy at the end of the book, but is central to his whole being. Only by being one of life's non-participants can he be so mordantly and amusingly perceptive, neatly skewering conventional views on everything from art to economics.

Mr Houellebecq, however, has caused additional provocation by also skewering a popular French backpacker's guide, “Le Guide du routard”, which his hero describes as a po-faced, hypocritical denunciation of sex tourism, written by “Protestant humanitarian idiots whose ugly faces take up a quarter of the cover.”

Amid mutterings of possible legal action, the guide's publisher says Mr Houellebecq should leave Thailand and its gang-enslaved prostitutes alone and stick to Paris and “the whores of rue Saint-Denis—as long as they are there by choice”. In the meantime, and in their different ways, both the guide and “Plateforme” make good reading.

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The American family

Trouble at home

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HOW you feel about William Bennett's lament for the decline of the nuclear family will depend on your circumstances at home. For in any debate on the state of marriage, lines tend to be drawn on the basis of experience. That is part of the problem with the issue. As more and more people are divorced or live with partners to whom they are not married, advocates of the picture-book nuclear family grow more worried about giving offence. It is hard if you are Britain's upright Tony Blair, happily married and staunchly Christian, to speak up too loudly in favour of your own domestic arrangements when your ministers have included adulterers, divorcees and homosexuals. It is even harder for American politicians to discuss family values when their number includes the likes of Bill Clinton, Gary Condit and Newt Gingrich. So the debate on the consequences of the changing shape of the family—surely the most important of all social changes—mostly goes on outside politics.

The Broken Hearth: Reversing the Moral Collapse of the American Family
By William J. Bennett

Doubleday; 208 pages; $22.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Bennett has no such scruples. A former Republican politician and America's first drugs tsar under George Bush, he is a thoughtful conservative. He has the right personal qualifications to propound his views. The child of a much-married mother, he has nevertheless enjoyed a lasting and happy marriage and brought up two sons. That families such as his own are an increasing rarity is something he feels is profoundly harmful to the fabric of American society.

He recites a familiar tale: the ever-increasing divorce rate (which a child has a 50-50 chance of experiencing), the rise of abortion (which now ends a quarter of all pregnancies) and the increase in out-of-wedlock births, especially among blacks (96% of black teenage mothers are now unmarried). Mr Bennett blames—along with the pill, day-care, women's employment and easier divorce—the permissive attitude of the media. When, in the late 1940s, Ingrid Bergman left her husband and family for Roberto Rossellini and bore his child, her films were picketed; when Madonna had Guy Ritchie's child before they were married, she was lionised.

All this may be regrettable, but does it really matter? Here Mr Bennett is less convincing. His book would carry more weight if he had made a clearer link between family breakdown and social woes. Just as alarming as absent fathers is the fact that only two out of three young American women are likely to have children at all. And just as striking as America's family breakdown is the fact that this phenomenon is happening all over the world.

So what is to be done? Mr Bennett has no more answers than most folk. America's culture, built on the primacy of individual choice and self-fulfilment, is ill-suited to the rigours of married life, which brought as much unhappiness as happiness to people (and especially to women), even in its heyday. Such social tides tend to turn of their own accord, if at all: politicians and pundits can spot trends, and may advance them a little, but rarely set them off. The question is how long women will continue to find that the benefits of a life of freedom exceed the costs that a permanent partnership can impose. Those women who have themselves been the victims of broken marriages may try harder than their mothers did to repair the broken hearth.

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Post-war Britain

Decline and bawl

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THOUGH the empirical foundations of Correlli Barnett's theory of Britain's waning influence in the 20th century have been shaken by other historians, notably Sebastian Ritchie, the second volume of this four-part work on Britain's decline, "The Audit of War" (1986) did at least put forward an original view of Britain's performance in the second world war. Far from being the nation's finest hour, Mr Barnett argued that the war years already exhibited symptoms of what later became known as the British disease: indecisive politicians, ivory-tower education and, of course, obstructive trade unions. Provocative views of this sort can at least make other researchers look again at the facts.

The Verdict of Peace: Britain Between her Yesterday and the Future
By Correlli Barnett

Macmillan; 713 pages; £20

Buy it at Amazon.co.uk

No such excuse can be made for this unoriginal and astonishingly ill-written rant, the fourth and final volume in Mr Barnett's "Pride and Fall" series. Better should have been expected. Despite a barrage of statistics, he fails to make a convincing case. His comparative framework is weak. Former West Germany is his paradigm of what industrial modernity and good technical education might have been, but France is only touched on intermittently. Had Mr Barnett been more familiar with the Ecole Normale Supérieure, he might have hesitated to denounce the English educational establishment for its elitism and emphasis on the study of classics. Countries such as Ireland or Italy, whose struggle for enduring economic success raises as interesting questions as those posed by German prosperity, are ignored. More strikingly still, Mr Barnett never pauses to confront the explanatory difficulties presented by the fact that many of the virtues he attributes to West Germany, especially to its schools and technical colleges, were equally present in that less noted powerhouse of industrial performance, the German Democratic Republic.

In many ways, the comparative approach of the book is dated. Competition between nations is seen as key to human affairs, and 20th-century British history is understood as a perpetual replay of the 1966 soccer World Cup. Non-economic measures of social well-being get little recognition, and it is gloomily assumed that one nation's success is inevitably another nation's failure. But why should British people regard the prosperity of Germany, a democratic country that has learned from its terrible past, with anything but delight? How pertinent in any event are many conventional measures of international competition in a world where large companies straddle national frontiers and people move easily from one country to another? The influx of German students into British universities must seem odd to anyone who shares Mr Barnett's view of British educational failings.

It should also be clearer to Mr Barnett that the performance of different sectors within an economy can vary widely. He focuses primarily on Britain's motor industry, while its services are neglected. Publishing might have made an interesting case study for him. Would he conclude that the tough-minded Germans at Holtzbrinck, who own Macmillan, might have thought twice before committing shareholders' money to books like this?

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20th-century history

The end of innocence

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Peacemakers: The Paris Conference of 1919 and Its Attempt to End War
By Margaret MacMillan

John Murray; 574 pages; £25. To be published in America by Random House next spring

Buy it at Amazon.co.uk

JUST over three weeks after the guns fell silent on the western front, Woodrow Wilson sailed for France to take what he saw as his rightful place as the saviour of the world. As the *SS George Washington* docked in Brest, the air was filled with cries of “Vive L'Amérique! Vive Wilson!” “We are so grateful”, said the French foreign minister, Stéphen Pichon, “that you have come over to give us the right sort of peace.” All Europe agreed.

Six months later, when Wilson and his allies signed a treaty of peace with the defeated Germans in the Hall of Mirrors at Versailles, hope had been replaced by discord and disillusion. Wilson had promised a solution based on justice and the right of self-determination for nations. Painfully, in the course of the peace conference, the oversimplicity of that formula was exposed. Some nations, it turned out—especially those with powerful lobbies in the United States—were indeed to determine their own sovereign futures. Other peoples, such as the Armenians and the Kurds, were not. Few were the countries, Wilson discovered, where the majority could be given self-determination without denying the rights of minorities.

Not only the global catastrophe of the second world war but several of the world's bitterest problems more than 80 years on can be traced to decisions taken in Paris in the first half of 1919. Among them are the creation of Burundi, Rwanda and Iraq, the instability of the Balkans and the Caucasus, the poisoned relations between Greece and Turkey, and, above all, the feud between the Arabs and the Israelis.

Wilson's fellow countrymen, and many British observers, followed John Maynard Keynes in blaming the failure of the conference on the vindictiveness of the French in general and of Clemenceau in particular. Margaret MacMillan, in this lucid and lively retelling of the story, does not agree. Her detailed account takes in the vast sweep of affairs determined in Paris, from the future of German colonies in Africa to the partition of the Ottoman empire. She argues that the conference has been blamed for many disasters that were, in fact, determined either by events that took place before it began or by later troubles. Ms MacMillan is also right to stress that, however oppressive reparations might have been, they were subsequently reduced and paid only in part.

As a corrective to the received Keynesian version of events, this is useful. But in essence, surely, Keynes was right. Britain and France did miss the opportunity to be statesmanlike, because the allied statesmen—especially but not only Clemenceau, Lloyd George and Orlando—saw themselves as mandated to bring back from the conference some reward for the great sacrifices their peoples had made.

This was the opportunity for America to lead the old world towards a better one made safe by open diplomacy and the League of Nations. But that chance was lost. The senate crippled the league and America shirked its responsibility. When it took up the burden again, in 1945, it was not as a disinterested party but as the leader of a coalition against communism. At Hiroshima it had already lost the right to claim the prerogatives of innocence.

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Literary essays

Where's the fire?

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THIS anthology brings together 29 of J.M. Coetzee's book reviews, articles and lectures, written over a period of 14 years. Although there is no unifying theme, certain preoccupations do emerge over its course. Unsurprisingly, South Africa looms large, with essays on Nadine Gordimer, Alan Paton and Helen Suzman, the Xhosa tribe, and the undeclared politics of the 1995 Rugby World Cup. There is also a clutch of pieces on the art of translation, particularly from German. Mr Coetzee refuses to commit himself to a theory of translation, offering instead his elegantly evasive formulation that "translating turns out to be only a more intense and more demanding form of what we do whenever we read."

Stranger Shores: Literary Essays 1986-1999
By J.M. Coetzee

Viking; 288 pages; $24.95.
Secker & Warburg; £17.99

Buy it at
Amazon.com
Amazon.co.uk

"Stranger Shores" contains several outstanding essays. Taken as a whole, however, it is a disappointment. Little has been done to make the book reader-friendly. There is no foreword, no index, and no organisation of the contents. Several of the pieces are redundant. Reviews of novels by Salman Rushdie and A.S. Byatt, for example, offer little more than plot summaries. Others have aged badly. In a discussion of a book on South African photography that is now out of print, Mr Coetzee refers us to page numbers we cannot turn to and photographs we cannot see. Even the long opening lecture, "What is a Classic?", disappoints. Italo Calvino in an essay collection entitled "Why Read the Classics?" and Frank Kermode in his book, "The Classic", have addressed much the same question with far more rigour and imagination. One scents, in other words, a publishing initiative rather than a well-weighed project.

The collection also suffers from Mr Coetzee's preferred critical tone, which is dry tending to arid. To be sure, each essay demonstrates an immense breadth of learning, and there are occasional moments of fine phrasing, as when Mr Coetzee observes of Jorge Luis Borges's teasing fiction that it "takes its course with the certainty of a game of chess in which the reader is always a move behind the author". Yet few of Mr Coetzee's subjects rouse him, either to enthusiasm or to ire. Dispassionate criticism of this sort makes for passion-free reading.

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Jewish mysticism

Having it both ways

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THE practice of Judaism has given two adjectives to the English language, with meanings that collide interestingly. “Talmudic” (derived from the study of Jewish law) implies hair-splitting and rationality. “Kabbalistic” (referring to Jewish mysticism) suggests an emotional engagement with esoteric knowledge that is anything but rational.

The Lost Messiah
By John Freely

Viking; 275 pages; £20

Buy it at
Amazon.co.uk

Among Jews in modern Europe, the Talmudic style triumphed and the kabbalah, in the end, vanished. In the words of the great scholar of Jewish mysticism, Gershom Scholem: “What remained resembled an overgrown field of ruins, where only very occasionally a learned traveller was surprised or shocked by some bizarre image of the sacred, repellent to rational thought.”

Yet in the 17th century the Jewish world from Aleppo to Amsterdam was in thrall to Sabbatai Sevi, a kabbalist who claimed to be the messiah. Sevi's story is so remarkable that even an unadorned telling of it makes for an interesting narrative. This John Freely has provided, though not a great deal more.

Born in 1626 into a prosperous commercial family in Izmir, Sevi exhibited at an early stage the pathology and genius on which his messiahhood would rest. He veered between melancholy and periods of “illumination”, which his followers took to be divine in origin. The liberties he took with tradition and law prompted his expulsion from one Jewish community after another across the Levant. In Istanbul he placed in a cradle a fish dressed in infant's clothing, dramatising a prophecy that the messiah would be born under the sign of Pisces. In Salonika, according to one account, he married a Torah scroll.

It was not until 1648 that Sevi took himself properly speaking to be the messiah. Although many orthodox rabbis resisted, the Sabbatian movement was hardly a fringe cult. Sevi's promise of redemption conquered rich and poor, and much of the rabbinate too. So numerous and fervent were the false messiah's followers in Hamburg that dissenting rabbis were afraid to preach against him. In Alexandria Jewish merchants ceased trade to prepare for their return to Zion.

Why was this improbable saviour so widely believed? One reason must have been the attractiveness of his promise to reverse the condition into which history had placed the Jews, a dispersed nation subordinate to both Ottoman sultan and Christian king. Sevi's followers dreamed not only of returning to Israel but of having Gentiles prostrate themselves before them. Indeed, it was prophesied that the Grand Turk himself would relinquish his crown to Sevi.

Such inversions of the existing order of things were a Sevi speciality. He converted fast days into feast days, ate unkosher food, allowed women to read the Torah in synagogue and even, it was persistently rumoured, presided over orgies. Then, in 1666, nearly 15 years after he proclaimed himself messiah, came the ultimate inversion. Brought before the Ottoman ruler with the connivance of hostile rabbis to answer charges of sedition, Sevi converted to Islam rather than face martyrdom, and accepted a sinecure as the Sultan's head gatekeeper. Yet even this did not end his messianic career. Many believers read his apostasy as a mystical act of self-sacrifice; a few converted, at least outwardly, to Islam. He had always been a hybrid: renegade and rabbi, charlatan and saint. And now he was both Muslim and Jew.

Nor did Sabbatianism end with his death a decade later, in exile in what is now Montenegro. Sects of believers, called Donme (turncoats), awaited his return until the 20th century. Most were outward adherents of Islam, but had second names and would not intermarry. They kept quiet about their faith—so quiet that Mr Freely believes that some Donme may still be awaiting their lost messiah.

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New fiction

Journey to elsewhere

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THE plot of Nadine Gordimer's novel, “The Pickup”, is spare and symmetrical. Julie Summers, working in public relations in South Africa, picks up a handsome Arab garage mechanic when her car breaks down in a rough neighbourhood. He turns out to be an illegal immigrant, and the authorities want him out. Julie pulls strings, but in vain. Deeply in love, she decides to follow him (as his wife, he insists) to his desert village, where women know their place.

Here their roles are reversed: she becomes choiceless and dependent while he is the string-puller, sitting in visa queues, hunting down contacts. Ms Gordimer's 1981 novel, “July's People”, used the same idea of changing places to very different effect.

The Pickup
By Nadine Gordimer

Farrar, Straus and Giroux; 282 pages; $24.
Bloomsbury; £16.99

Buy it at
Amazon.com
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Ibrahim and Julie—with the faintest echo of Shakespeare's star-crossed lovers—are on different trajectories: “neither knows either, about the other”, as Ms Gordimer puts it, in the peculiarly elliptical and rather irritating style that is typical of this novel. Julie scorns her businessman father and his fat-cat circle; Ibrahim is impressed by their power, and shocked by her disrespect. She sees humiliation for him in the “first” world; he sees opportunity. Conversely—and this is the difficult nub of the book—she learns to see his country in a light that he shuts out.

Ms Gordimer is no sentimentalist; Ibrahim's family has cats as fat as Julie's. But through Julie's eyes she also evokes the rhythms of prayer and self-abnegation, the courtesies and strengths of family loyalty, the sense of life enhanced by the vast sterility of the desert. It is here, where Julie's love for Ibrahim develops beyond him and ultimately leaves him behind, that the book is most moving—though also, to the sceptical reader, most uncomfortable. And yet Ms Gordimer writes so tenderly and searchingly about Julie's gradual transcendence of her western self that she manages to hold scepticism at bay.

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Svetlana Gouzenko

Sep 13th 2001
From The Economist print edition

Svetlana Gouzenko, a spy's wife, died on September 3rd, aged 77

WHEN Igor Gouzenko, a Soviet spy, defected to the West he told his wife Svetlana that he did not expect to survive for more than a year. He was sure that he would be tracked down by his former employers and shot. Svetlana too would probably be killed. Even their small son might not be spared. With what is sometimes called Russian fatalism, Igor and Svetlana awaited “the destined day”, in Turgenev's phrase.

Many people have a calculated fear of being murdered. United States presidents continue to be provided with protection after they have left office. In Britain a senior politician who may have offended Irish nationalists can have the comfort of an armed minder. But in 1945, when the Gouzenkos went into hiding, the science of personal security had not been developed in the West. Igor had been attached to the Soviet embassy in Ottawa. The Gouzenkos' guardians were the Royal Canadian Mounted Police, the red-coated Mounties brilliant at horsemanship set to music, but with limited knowledge of Soviet assassins.

Canadian officials had at first been sceptical about Gouzenko and were doubtful about offering him asylum. The Soviet Union was then the West's ally. Canada asked the United States and Britain what they made of the armful of documents that Gouzenko had brought with him. They were immediately alarmed by its lists of westerners working for Russia, each assessed for reliability: “is afraid”, “takes money”. The documents started the hunt for spies such as Kim Philby, a British foreign-policy adviser, and Klaus Fuchs, a scientist passing on technical details about the atom bomb to the Soviet Union. The Gouzenkos became important. Whatever their fatalism, they had to be kept alive. Other Soviet spies were to defect later but Gouzenko was perhaps the most important because of the shocking impact he made on a complacent West. The Gouzenkos were found a secret and well-guarded house outside Toronto. Within these unusual confines Svetlana set out to be a Canadian housewife and mother.

The little Canadians

She taught herself English, helped by Igor, who was fluent, and by studying Canadian newspapers. Language was always to be a problem. Svetlana and Igor had eight children. The couple liked to speak Russian to each other but English was the family tongue. They sought to bring up the children as normal Canadians. Yes, the children were told, their parents were immigrants, as many Canadians are, but from Europe, not the Soviet Union. Elaborate explanations had to be given to the children why they should keep a watch for strangers who might be following them home. Only when the children were in their late teens did they learn of the family's strange background.

Equipped with language, Svetlana screwed up her courage to venture out of the safe house to go shopping. The threat of assassination remained. On her return to the house Svetlana would check for the slightest disturbance—a moved cushion or newspaper—that would indicate an intruder. A Soviet agent who defected later said that he had been on a mission to kill the couple.

Few pictures exist of the Gouzenkos. When Igor was interviewed on television his head was in a hood. Our grainy picture, possibly a passport photo, is of Svetlana in her early 20s. In “The Fall of a Titan”, a novel that Igor published in 1954, he describes a woman called Anna, his pet name for Svetlana.

> A dress of dark silk enveloped her graceful figure. Her low-cut bodice emphasised her round shoulders and her high firm breasts. Her shapely arms were bare, and in her hands she held a gossamer scarf. Two heavy braids were wound around her head into a crown.

In wartime Russia Svetlana had served briefly in the army as a sniper. She and Igor were married in 1942 and soon after were sent to Canada. Both were intoxicated by the liberty granted to individuals in the West, a risk the Soviet government always took when allowing its citizens abroad. It was when Igor learnt that their term in Canada was due to end that they decided to abscond.

They never expressed regret about their decision and believed, correctly, they helped to protect western freedom. All the same, there were times when the couple pondered what their lives might have been had they stayed in the Soviet Union. Both were well thought of in Stalin's state and could have had rewarding careers. Igor was a mathematician, a skill that had got him his first job in the Soviet secret service as a decoder. Svetlana had been promised she could train as an architect.

She had a talent as a painter and a potter, pursuits she said helped her to relax. She wrote a memoir, published in 1960, of her childhood in the Soviet Union. Those who knew Svetlana well said she was strong minded and grew increasingly confident, the binding force of the family. At least, she said, she always had something to do with eight children to bring up and, later, 16 grandchildren to pamper. The fatalistic couple lived to a reasonable age, Igor to 60, Svetlana to 77, a bit beyond their imagined destined day.

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The Economist commodity price index

Sep 13th 2001
From The Economist print edition

1995=100

	Sep 4th	Sep 11th*	% change on one month	% change on one year
Dollar index				
All items	67.7	66.7	– 3.1	– 8.6
Food	68.5	67.8	– 3.4	– 2.7
Industrials				
All	66.6	65.2	– 2.6	–15.8
Nfa†	67.0	65.7	– 4.4	– 3.2
Metals	66.2	64.7	– 1.0	–24.2
Sterling index				
All items	73.8	71.6	– 6.3	–12.5
Euro index				
All items	100.0	96.7	– 4.1	–13.3
Yen index				
All items	85.6	84.2	– 5.5	+ 1.4
Gold				
$ per oz	272.35	288.45	+ 5.1	+ 5.1
West Texas Intermediate				
$ per barrel	26.95	27.63	– 1.6	–19.2

* Provisional. † Non-food agriculturals.

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Money and interest rates

Sep 13th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Sep 12th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+17.7	+ 6.6	Jul	4.42	6.54	4.34	5.45	6.03	6.95
Britain	+ 7.1	+ 7.6	Jul	4.75	6.13	4.57	4.83	5.39	6.28
Canada	+ 6.9	+ 4.8	Jul	3.55	5.60	3.67	5.20	5.71	7.06
Denmark	+ 5.5	+ 1.0	Jul	4.61	6.10	4.24	5.07	5.59	7.06
Japan	+ 9.7	+ 3.4	Aug	0.01	0.33	0.02	1.39	1.86	1.50
Sweden	+ 6.5	+ 2.2	Jul	4.35	3.90	4.25	5.14	5.22	5.23
Switzerland	+ 0.3	+ 3.0	Jul	3.01	3.46	3.00	3.22	3.77	4.01
United States	+ 3.0	+11.5	Jul	3.24‡	6.47	3.51	4.73	5.73	6.75‡
Euro area†	+ 3.3	+ 6.4	Jul	4.18	5.01	3.72	4.76	5.20	5.61

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.39%, Japan No.234 1.43%. Central bank rates: US fed funds 3.50%, ECB refinancing 4.25%, BOJ overnight call 0.001%, BOE repo 5.00%. ‡Sep10th.
Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

Sep 13th 2001
From The Economist print edition

Market indices

	Sep 12th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,051.3	3,425.2	3,051.3	– 5.6	–10.9	– 3.3	–10.0
Austria (ATX)	1,154.5	1,245.8	1,052.2	– 3.8	–33.5	+ 7.6	+ 3.8
Belgium (Bel 20)	2,597.1	3,030.4	2,581.2	–10.1	–29.5	–14.1	–17.2
Britain (FTSE 100)	4,882.1	6,334.5	4,746.0	– 8.2	–29.6	–21.5	–23.1
Canada (Toronto Composite)	7,048.8§	9,348.4	7,048.8	– 5.4	–38.1	–21.1	–24.0
Denmark (KBX)	223.5	294.3	220.5	– 3.8	–26.0	–15.6	–18.3
France (SBF 250)	2,647.0	3,820.2	2,630.4	–10.6	–39.7	–29.8	–32.3
(CAC 40)	4,114.3	5,998.5	4,059.8	–10.0	–40.6	–30.6	–33.0
Germany (Xetra DAX)	4,335.2	6,795.1	4,273.5	–14.1	–46.2	–32.6	–35.0
Italy (BCI)	1,298.5	1,948.4	1,298.5	–12.2	–40.5	–32.2	–34.6
Japan (Nikkei 225)	9,610.1	14,529.4	9,610.1	– 9.3	–75.3	–30.3	–33.4
(Topix)	990.8	1,441.0	990.8	– 8.9	–65.7	–22.8	–26.2
Netherlands (AEX)	452.9	642.3	449.9	–11.7	–35.4	–29.0	–31.5
Spain (Madrid SE)	718.5	963.9	714.8	– 9.1	–37.3	–18.4	–21.3
Sweden (Affarsvarlden Gen)	193.5	293.1	184.9	– 6.9	–51.7	–30.3	–37.8
Switzerland (Swiss Market)	5,838.4	8,135.4	5,695.1	–10.3	–30.6	–28.2	–30.0
United States (DJIA)	9,605.5**	11,337.9	9,389.5	– 4.3	–18.1	–11.0	–11.0
(S&P 500)	1,092.5**	1,373.7	1,085.8	– 3.5	–28.5	–17.2	–17.2
(Nasdaq Comp)	1,695.4**	2,859.2	1,638.8	– 3.6	–66.4	–31.4	–31.4
Europe (FTSE Eurotop 300)*	1,126.7	1,545.5	1,104.8	–10.1	–33.9	–26.5	–29.1
Euro area (FTSE Ebloc 100)*	962.8	1,404.1	953.5	–10.9	–37.9	–30.8	–33.3
World (MSCI)†	949.2	1,249.2	949.2	– 5.5	–34.5	na	–22.3
World bond market (Salomon)‡	448.6††	451.0	420.6	+ 1.2	– 2.5	na	+ 1.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. §Sept 11th. **Sept 10th. ††Sept 7th.

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Trade, exchange rates and budgets

Sep 13th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† Sep 12th	Exchange rate trade-weighted† year ago	Currency units per $ Sep 12th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	+ 0.7 Jul	− 9.9 Q2	− 2.8	− 3.1	71.3	75.0	1.93	1.80	2.83	1.75	1.62	0.1
Austria	− 5.4 May	− 4.3 Jun	− 2.4	− 2.3	100.3	99.1	15.2	15.9	22.2	13.8	12.7	-0.6
Belgium	+ 10.6 Jun	+ 11.2 Mar	+ 4.2	+ 4.5	99.0	97.7	44.5	46.7	65.2	40.3	37.3	0.7
Britain	− 44.9 Jun	− 19.2 Q1	− 1.7	− 2.1	106.6	105.1	0.68	0.71	–	0.62	0.57	1.2
Canada	+ 47.4 Jun	+ 25.5 Q2	+ 3.1	+ 2.3	76.9	80.6	1.56	1.48	2.28	1.41	1.30	2.6
Denmark	+ 6.8 Jul	+ 4.6 Jul	+ 1.4	+ 1.4	102.6	99.4	8.22	8.64	12.0	7.44	6.88	2.9
France	nil Jun	+ 14.3 Jun	+ 1.5	+ 1.6	101.7	100.2	7.24	7.59	10.6	6.56	6.06	-0.5
Germany	+ 59.2 Jul	− 21.3 Jul	− 1.0	− 0.9	98.7	96.6	2.16	2.26	3.16	1.96	1.81	-1.7
Italy	+ 3.6 Jun	− 4.9 May	− 0.3	− 0.2	72.6	71.5	2,138	2,241	3,128	1,936	1,790	-1.3
Japan	+ 84.3 Jul	+ 92.5 Jul	+ 2.1	+ 2.0	140.4	158.8	119	107	175	108	–	-6.3
Netherlands	+ 18.9 Jun	+ 13.7 Q2	+ 3.9	+ 3.9	98.0	96.3	2.43	2.55	3.56	2.20	2.04	1.3
Spain	− 38.9 Jun	− 15.2 May	− 2.8	− 2.3	74.2	73.3	184	193	269	166	154	nil
Sweden	+ 11.8 Jul	+ 5.2 Jul	+ 2.1	+ 2.3	73.0	82.0	10.57	9.72	15.5	9.57	8.85	3.6
Switzerland	+ 0.3 Jul	+ 28.3 Q1	+10.9	+10.7	109.7	106.3	1.66	1.76	2.43	1.50	1.39	na
United States	−453.5 Jun	−449.9 Q2	− 4.1	− 4.0	117.5	114.2	–	–	1.46	0.91	0.84	2.1
Euro area	+ 2.5 Jun	− 28.0 Jun	− 0.2	− 0.1	78.9	76.2	1.10	1.16	1.62	–	0.92	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.8 Jul	+ 9.3 Jun	na	na	78.6	75.9	6.69	6.88	9.79	6.06	5.60	5.3
Greece	− 7.5 Jan	− 7.7 Jan	na	na	57.4	57.0	384	391	561	347	321	nil
Iceland	− 0.3 Jul	− 0.9 Q1	na	na	na	na	100	83.5	146	90.3	83.5	2.4
Ireland	+ 29.1 Jun	− 1.3 Q1	na	na	87.4	85.6	0.89	0.91	1.30	0.81	0.75	4.5
Luxembourg	− 2.5 May	+ 1.2 Q1	na	na	99.0	97.7	45.4	46.7	66.4	41.1	38.0	3.6
New Zealand	nil Jul	− 2.3 Q1	na	na	80.4	77.0	2.31	2.36	3.38	2.09	1.93	1.0
Norway	+ 28.0 Jul	+ 26.1 Jun	na	na	96.5	92.4	8.94	9.29	13.1	8.10	7.48	15.3
Portugal	− 13.7 May	− 9.2 Jun	na	na	89.4	88.3	226	232	330	204	189	-1.2

*Merchandise, Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

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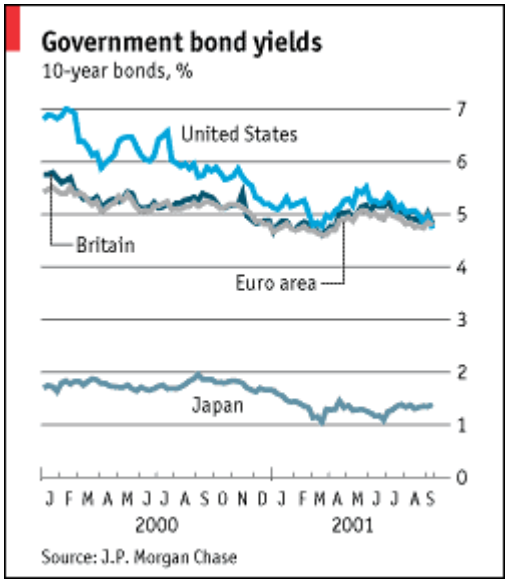
Government bond yields

Sep 13th 2001
From The Economist print edition

Bond yields have declined everywhere since January 2000, as cooling economic growth has reduced the risk of inflation. Japan's low yields reflect price deflation and near-zero interest rates.



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Overview

Sep 13th 2001
From The Economist print edition

A terrorist attack on America sent shivers through global **financial markets**. The dollar plunged by 3% against the euro and the yen immediately after the attack. It later regained some of its losses. Trading was suspended on Wall Street, leaving stockmarkets around the world in a state of nervousness. The Nikkei tumbled by 6.6%, falling below 10,000 to yet another 17-year low. Many European shares also tumbled. Before the markets were shut in America, bad economic news had already left the Dow Jones down 4.3%, and the Nasdaq down 3.5%, since September 5th.

The economic outlook continues to deteriorate in **America**. The unemployment rate jumped to 4.9% in August, from 4.5% in July. Hours worked also fell by 0.4%, after dropping by 0.3% in July. The downturn seems to be spreading to the services sector. The NAPM index of non-manufacturing activity plummeted to 45.5 in August from 48.9 in July. A number below 50 is a sign that activity is contracting.

Japan's GDP fell in the second quarter by 3.2% at an annual rate, leaving output 0.7% lower than a year before.

In **Germany**, industrial production fell by 1.5% in July. Manufacturing orders suffered an unexpectedly large 4.4% decline in the year to July. **France's** GDP grew by only 0.3% in the second quarter, leaving output 2.3% higher than a year earlier.

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Output, demand and jobs

Sep 13th 2001
From The Economist print edition

% change at annual rate

	GDP 1 qtr	GDP 1 year	The Economist poll GDP forecasts 2001	2002	Industrial production 1 year	Retail sales (volume) 1 year	Unemployment % rate latest	year ago
Australia	+ 3.6	+ 1.4 Q2	+ 2.5	+ 4.0	– 1.4 Q1*	+ 0.7 Q2	6.9 Jul	6.1
Austria	+ 1.6	+ 2.2 Q1	+ 1.7	+ 2.1	+ 8.0 Jun	– 3.3 May	3.8 Jul	3.6
Belgium	– 2.4	+ 1.7 Q2	+ 1.9	+ 2.4	– 0.5 Jun*	– 3.4 May	11.6 Aug*	11.9
Britain	+ 1.4	+ 2.1 Q2	+ 2.1	+ 2.6	– 3.2 Jul	+ 6.0 Jul	5.0 Jul‡	5.3
Canada	+ 0.4	+ 2.1 Q2	+ 2.1	+ 2.8	– 2.4 Jun	+ 3.6 May	7.2 Aug	7.1
Denmark	– 4.6	+ 1.0 Q1	+ 1.3	+ 2.1	+ 4.4 Jun	+ 3.0 Jun	5.1 Jul	5.4
France	+ 1.0	+ 2.3 Q2	+ 2.2	+ 2.3	+ 2.3 Jun	+ 2.3 Jun	8.9 Jul	9.5
Germany	nil	+ 0.6 Q2	+ 1.1	+ 1.9	– 1.5 Jul	+ 0.5 Jun	9.3 Aug	9.4
Italy	– 0.5	+ 2.0 Q2	+ 1.9	+ 2.2	– 3.1 Jun	+ 0.1 Jun	9.5 Apr	10.7
Japan	– 3.2	– 0.7 Q2	– 0.4	+ 0.5	– 8.5 Jul	– 2.4 Jun	5.0 Jul	4.7
Netherlands	+ 1.6	+ 1.5 Q2	+ 1.7	+ 2.5	+ 0.7 Jun	+ 1.5 Mar	2.0 Jul§	2.6
Spain	+ 4.1	+ 3.3 Q1	+ 2.7	+ 2.8	– 1.6 Jul	na	12.8 Jul	14.0
Sweden	+ 1.3	+ 1.4 Q2	+ 2.0	+ 2.6	– 1.0 May	+ 2.1 Jun	4.2 Jul*	5.2
Switzerland	+ 7.4	+ 2.5 Q1	+ 1.6	+ 1.9	+ 5.1 Q1*	+ 8.4 Jun	1.7 Aug*	1.8
United States	+ 0.2	+ 1.2 Q2	+ 1.6	+ 2.6	– 3.2 Jul	+ 3.8 Jul	4.9 Aug	4.1
Euro area	+ 2.0	+ 2.5 Q1	+ 1.8	+ 2.2	+ 1.4 Jun	+ 2.1 Jun	8.3 Jul	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.4	+ 3.4 Q1	na	na	– 5.4 Jul	+ 2.2 May	7.6 Jul*	7.8
Greece	+ 2.8	+ 4.9 Q2	na	na	– 0.8 Mar*	+ 5.1 Mar	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.3 Jun	1.4
Ireland	na	+12.1 Q4	na	na	+13.9 Jun*	+ 1.1 Jun	3.7 Aug	3.9
Luxembourg	na	+ 8.52000	na	na	+ 1.4 May*†	+ 9.1 Jun	2.4 Jul	2.6
New Zealand	+ 0.9	+ 0.4 Q1	na	na	+ 0.9 Q1*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.5	+ 1.4 Q2	na	na	– 8.0 Jul*	+ 0.4 Jul	3.6 Q2	3.3
Portugal	– 0.3	+ 2.2 Q1	na	na	+ 0.6 Jul*	+ 2.2 May	4.2 Q1	4.4

*Not seasonally adjusted. ‡ May-Jul; claimant count rate 3.1% in Aug. §May-Jul.

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Prices and wages

Sep 13th 2001
From The Economist print edition

% change at annual rate

	Consumer prices* 1 year		Consumer prices* year ago	The Economist poll consumer prices forecast 2001	The Economist poll consumer prices forecast 2002	Producer prices* 1 year		Producer prices* year ago	Wages/earnings 1 year		Wages/earnings year ago
Australia	+ 6.0	Q2	+ 3.2	+ 4.0	+ 2.4	+ 5.6	Q2	+ 7.4	+ 3.7	Q2	+ 3.9
Austria	+ 2.7	Jul	+ 2.8	+ 2.5	+ 1.8	+ 1.7	Aug	+ 4.3	+ 2.8	Jul	+ 2.0
Belgium	+ 2.7	Aug	+ 2.9	+ 2.5	+ 1.9	+ 4.0	Jun	+ 8.7	+ 2.6	Q2	+ 2.2
Britain	+ 1.6	Jul	+ 3.3	+ 2.1	+ 2.3	+ 0.3	Aug	+ 2.3	+ 4.6	Jul	+ 3.9
Canada	+ 2.6	Jul	+ 3.0	+ 2.8	+ 2.1	+ 0.9	Jul	+ 4.2	+ 1.7	Jun	+ 1.0
Denmark	+ 2.5	Aug	+ 2.4	+ 2.4	+ 2.0	+ 2.7	Jul	+ 5.8	+ 4.7	Q2	+ 3.3
France	+ 1.9	Aug	+ 1.8	+ 1.8	+ 1.5	+ 2.3	Jun	+ 6.0	+ 4.3	Q1	+ 5.2
Germany	+ 2.6	Aug	+ 1.8	+ 2.6	+ 1.5	+ 2.2	Jul	+ 5.5	+ 1.8	Jun*	+ 2.1
Italy	+ 2.8	Aug	+ 2.6	+ 2.7	+ 2.0	+ 1.4	Jul	+ 6.7	+ 2.5	Jul*	+ 2.0
Japan	– 0.8	Jul	– 0.5	– 0.5	– 0.4	+ 0.1	Aug	+ 0.2	+ 1.4	Jul*	+ 1.2
Netherlands	+ 4.7	Aug	+ 2.5	+ 4.6	+ 2.5	+ 2.4	Jul	+ 8.0	+ 4.4	Jul	+ 3.2
Spain	+ 3.9	Jul	+ 3.6	+ 3.7	+ 2.8	+ 2.0	Jul	+ 5.5	+ 3.4	Q1†	na
Sweden	+ 2.9	Jul	+ 1.2	+ 2.3	+ 1.8	+ 2.1	Jul	+ 3.7	+ 2.3	Jun*	+ 4.9
Switzerland	+ 1.1	Aug	+ 1.1	+ 1.3	+ 1.2	+ 0.2	Jul	+ 2.7	+ 1.3	2000	+ 0.3
United States	+ 2.7	Jul	+ 3.7	+ 3.2	+ 2.2	+ 1.5	Jul	+ 4.3	+ 4.2	Aug	+ 3.8
Euro area	+ 2.8	Jul	+ 2.3	+ 2.7	+ 1.8	+ 2.3	Jul	+ 5.6	+ 2.6	Q1	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.5	Jul	+ 3.7	na	na	+ 0.7	Jul	+ 8.0	+ 4.8	Q2*	+ 4.6
Greece	+ 3.8	Aug	+ 3.0	na	na	+ 5.1	Apr	+ 7.0	na		na
Iceland	+ 8.4	Sep	+ 4.0	na	na	+ 6.9	Aug	+ 3.5	+ 8.1	Jul	+ 7.9
Ireland	+ 4.8	Jul	+ 6.2	na	na	+ 2.6	Jul	+ 5.6	+ 6.4	Q4*	+ 7.3
Luxembourg	+ 3.0	Jul	+ 3.4	na	na	nil	Jun	+ 5.5	+ 2.4	May*	+ 8.4
New Zealand	+ 3.2	Q2	+ 2.0	na	na	+ 8.1	Q2	+ 5.9	+ 1.8	Q2	+ 1.7
Norway	+ 2.7	Aug	+ 3.5	na	na	– 4.3	Aug	+ 6.4	+ 4.4	Q1*	+ 4.1
Portugal	+ 4.3	Jul	+ 3.2	na	na	+ 1.3	Jul	+17.4	+ 2.4	Apr*	na

*Not seasonally adjusted. †New series.

Text refers only to the first 16 countries listed

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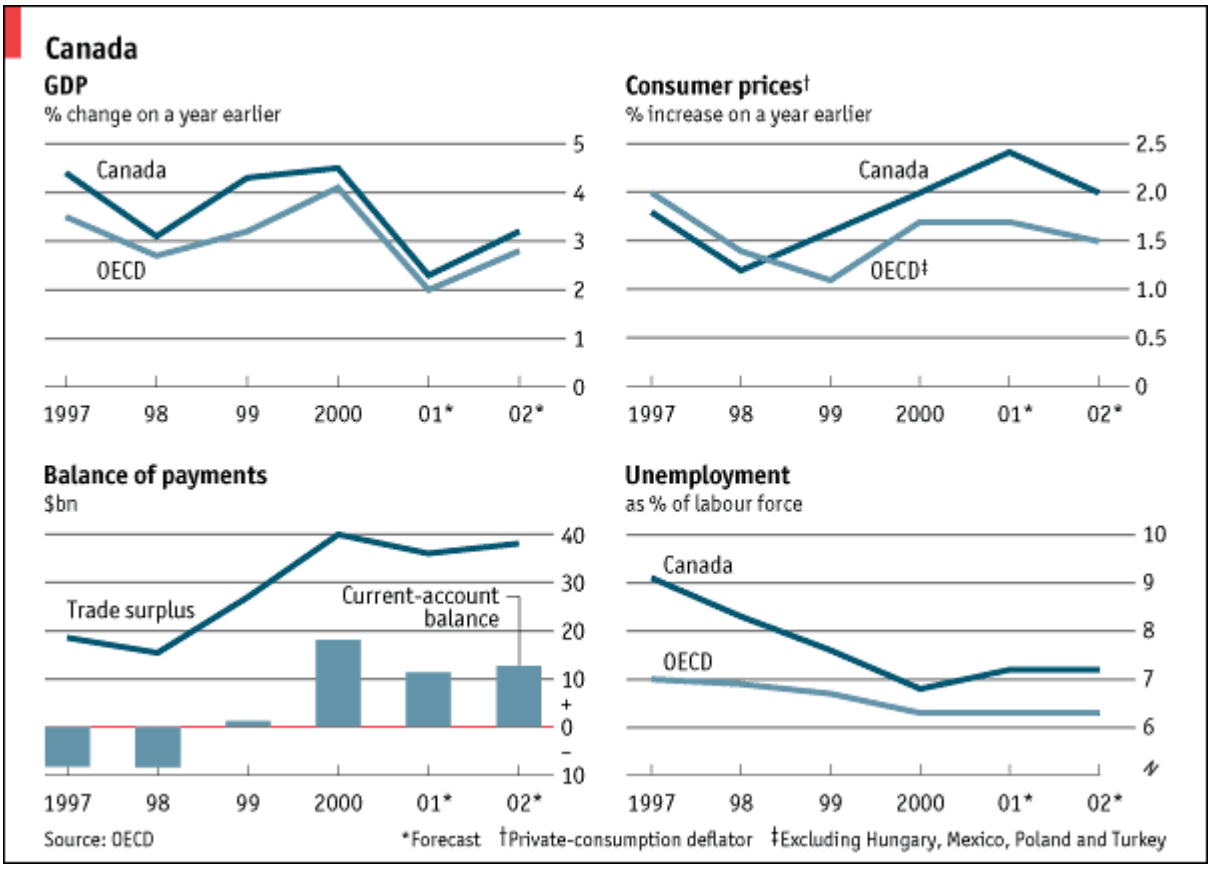
Canada

Sep 13th 2001
From The Economist print edition

After performing well in the late 1990s, the Canadian economy is now slowing markedly, mainly in response to the downturn in America. Canada is highly exposed to the American economy because so much of its trade is with the United States. However, the OECD argues that Canada is better placed to withstand external shocks than it was in the past because previous economic imbalances have been eliminated. The current account, which was in deficit in 1997 and 1998, has moved into surplus. The fiscal position is also healthy, with a record general-government financial surplus. The inflation-targeting regime established ten years ago has proved its worth. The pick-up in consumer-price inflation caused by surging energy costs is expected to subside next year. The main risk is of a more serious economic reverse in the United States.



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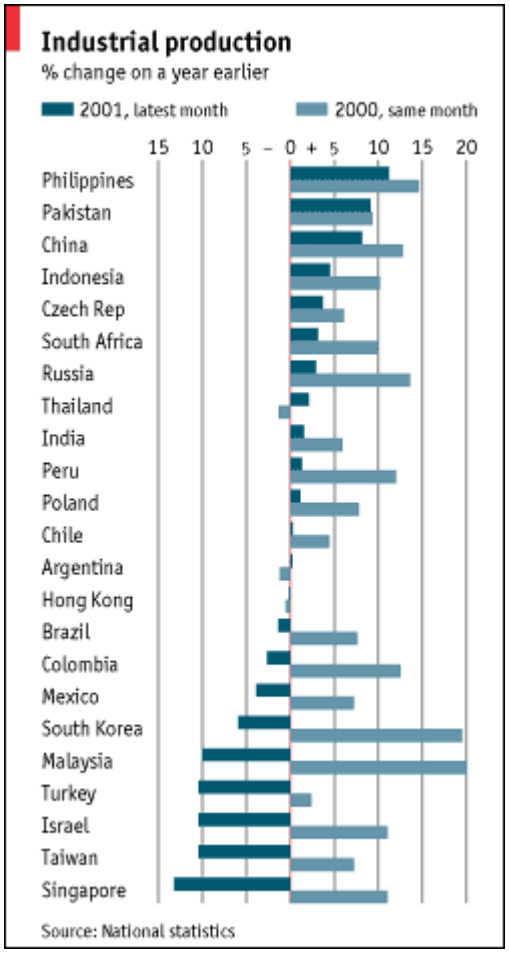
Industrial production

Sep 13th 2001
From The Economist print edition

Industrial production is falling dramatically in several of the small open economies in East Asia, due to their exposure to the technology downturn. Singapore and Taiwan might wish they had stuck to sweaters, toys and shoes, as demand for these old-economy items remains strong. The economies of the Philippines, Pakistan, China and Indonesia have held up relatively well.



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Overview

Sep 13th 2001
From The Economist print edition

East Asian stockmarkets were hit especially hard by fears that the terrorist attacks in America might tip its economy into recession. That would further push down already troubled East Asian economies. **Seoul's** stockmarket plunged 12% after the attacks, its biggest one-day drop since 1980; the index was down 13.8% over the past week. **Hong Kong's** index suffered a 13.2% decline. **Singapore's** stockmarket tumbled by 10.6% to a 30-month low.

Taiwan's trade surplus widened to $1.8 billion in August, on the back of a steep decline in imports of capital goods. Exports fell by 2.1% during the month, to 26% below their level a year earlier. Imports, however, fell by 16.3% (37% down over a year earlier), to their lowest since 1996. Deteriorating business confidence amid Taiwan's deep recession and a continuing migration of production to mainland China were responsible for the decline.

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Economy

Sep 13th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.8	Q2	+ 8.1	Aug	+ 1.5	Jul	+19.9	Jul	+20.5	2000	183.9	Jun
Hong Kong	+ 0.5	Q2	– 0.1	Q1	– 0.9	Jul	–12.1	Jul	+ 8.8	Q1	113.7	Aug
India	+ 3.8	Q1	+ 2.6	Jul	+ 4.0	Jul	– 5.5	Jul	– 2.3	Q1	42.5	Aug
Indonesia	+ 3.5	Q2	+ 7.5	Q1	+12.2	Aug	+24.5	Jul	+ 6.3	Q1	26.2	Jul
Malaysia	+ 0.5	Q2	– 5.9	Jul	+ 1.4	Jul	+15.4	Jul	+ 7.4	Q1	26.9	Jul
Philippines	+ 3.3	Q2	+11.2	Jun	+ 6.3	Aug	+ 5.1	Jun	+ 7.8	May	12.6	Jun
Singapore	– 0.9	Q2	–13.2	Jul	+ 1.3	Jul	+ 4.6	Jul	+22.6	Q2	74.4	Jun
South Korea	+ 2.7	Q2	– 5.9	Jul	+ 4.7	Aug	+13.1	Aug	+13.3	Jul	97.0	Jul
Taiwan	– 2.4	Q2	–10.4	Jul	+ 0.4	Aug	+13.8	Aug	+14.1	Q2	110.1	Jul
Thailand	+ 1.8	Q1	+ 2.1	Jul	+ 1.4	Aug	+ 2.5	Jul	+ 6.1	Jul	31.2	Jul
Argentina	– 2.1	Q1	+ 0.2	Jul	– 1.2	Aug	+ 2.6	Jul	– 9.0	Q1	16.7	Jul
Brazil	+ 0.8	Q2	+ 0.8	Jul	+ 7.8	Jul	– 1.1	Aug	–27.5	Jul	35.5	Jul
Chile	+ 3.4	Q2	+ 0.3	Jul	+ 3.8	Aug	+ 1.5	Jul	– 1.6	Q2	14.5	Jul
Colombia	+ 1.6	Q2	+ 0.5	Jul	+ 8.0	Aug	+ 1.3	Jun	– 0.7	Q1	9.5	Jul
Mexico	nil	Q2	– 3.3	Jul	+ 5.9	Aug	– 9.6	Jul	–17.5	Q2	40.8	Jul
Peru	– 0.8	Jul	– 3.3	Jul	+ 1.4	Aug	– 0.2	Jul	– 1.4	Q2	8.4	Jun
Venezuela	+ 2.9	Q2	na		+12.9	Aug	+15.6	Q2‡	+11.1	Q2	10.6	Jul
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	Jun	– 9.9	Q1	– 0.2	Q1	12.9	May
Israel	+ 1.4	Q2	–10.4	Jun	+ 0.4	Jul	– 7.3	Aug	– 1.1	Q1	24.2	Aug
South Africa	+ 2.5	Q2	+ 1.0	Jul	+ 5.3	Jul	+ 4.5	Jul	+ 0.1	Q1	6.1	Jun
Turkey	– 9.3	Q2	–11.2	Jul	+57.5	Aug	–20.9	Jun	– 3.7	Jun	17.2	Jul
Czech Republic	+ 3.8	Q1	+ 9.3	Jul	+ 5.5	Aug	– 3.5	Jul	– 2.7	Q2	13.4	Aug
Hungary	+ 4.0	Q2	nil	Jul	+ 8.7	Aug	– 2.2	Jul	– 1.5	Jul	11.9	Jul
Poland	+ 2.3	Q1	+ 1.1	Jul	+ 5.2	Jul	– 9.9	Jul	– 6.8	Jul	27.0	Jul
Russia	+ 4.9	Q1	+ 2.9	Jul	+20.9	Aug	+58.4	Jul	+45.9	Q1	33.7	Aug
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*												
Pakistan	+ 3.3	2001†	+ 9.1	May	+ 2.5	Jul	– 1.5	Jul	– 1.1	2001†	1.3	May
Saudi Arabia	+ 4.5	2000§	na		– 0.5	Jun	+50.9	2000	+15.6	2000	17.0	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Sep 13th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Sep 12th		Dec 31st 2000	
	Sep 12th	year ago	Sep 12th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.1	na	1,935.5	−0.8	−11.7	−11.7
Hong Kong	7.80	7.80	11.4	3.38	9,493.6	−13.2	−37.1	−37.1
India	47.4	45.6	69.4	6.83	3,032.7	−6.1	−23.7	−24.9
Indonesia	9,040	8,800	13,228	17.88	429.8	−2.8	+3.2	+10.5
Malaysia	3.80	3.80	5.56	3.30	690.5**	+0.2	+1.6	+1.6
Philippines	51.2	45.7	74.9	13.69	1,241.4	−1.0	−16.9	−18.9
Singapore	1.74	1.74	2.54	2.22	1,450.5	−10.6	−24.7	−24.9
South Korea	1,285	1,110	1,880	4.81	475.6	−13.8	−5.8	−7.2
Taiwan	34.5	31.1	50.4	3.60	4,176.9**	−5.6	−12.0	−15.5
Thailand	44.4	41.7	65.0	3.00	330.4**	−2.3	+22.7	+19.9
Argentina	1.00	1.00	1.46	16.30	272.3**	−13.1	−34.7	−34.8
Brazil	2.67	1.83	3.91	19.06	11,113.5	−11.7	−28.8	−48.0
Chile	682	566	998	0.72*	5,509.3	−2.4	+13.2	−4.8
Colombia	2,343	2,210	3,428	12.07	981.5	−1.1	na	na
Mexico	9.46	9.28	13.8	8.75	5,531.0**	−9.2	−2.1	−0.6
Peru	3.49	3.47	5.1	5.45	1,275.0	−3.5	+5.5	+6.6
Venezuela	746	690	1,092	13.63	7,243.3	+0.7	+6.6	+0.0
Egypt	4.26	3.52	6.24	8.81	6,226.9	−3.8	−18.7	−25.8
Israel	4.32	4.04	6.32	4.47	376.5	−6.6	−23.9	−28.7
South Africa	8.62	7.12	12.6	9.64	8,112.0	−9.2	−2.6	−14.4
Turkey	1,447,500	665,820	2,118,127	56.00	9,295.9**	−3.5	−1.5	−54.4
Czech Republic	37.7	41.1	55.2	5.47	330.5	−6.7	−30.9	−31.1
Hungary	284	303	415	10.90	5,747.8	−9.3	−26.8	−27.2
Poland	4.24	4.49	6.20	15.10	12,546.5	−3.5	−29.7	−31.5
Russia	29.5	27.8	43.1	25.00	195.1†	−7.0	+40.1	+36.2
EMF (MSCI)‡	1.00	1.00	1.46	na	278.1**	−5.7	na	−16.7
EMBI+§	1.00	1.00	1.46	na	208.8††	−1.2	na	+3.4

*Inflation adjusted. †In $ terms. ** Sept 11th. ††Sept 10th. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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